InLife
INSULAR LIFE

2020 ANNUAL REPORT

FINANCIAL STATEMENTS

The Insular Life Assurance Company, Ltd. and Subsidiaries
(A Domestic Mutual Life Insurance Company)

Consolidated Financial Statements
December 31, 2020 and 2019

And

Independent Auditor's Report

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees and Members
The Insular Life Assurance Company, Ltd.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of The Insular Life Assurance Company, Ltd. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended December 31, 2020 and 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

SYCIP GORRES VELAYO & CO.

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June 19, 2018, valid until June 18, 2021
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Decembe 3, 2020, valid until December 2, 2023
PTR No. 8534211, January 4, 2021, Makati City

April 22, 2021

THE INSULAR LIFE ASSURANCE COMPANY, LTD. AND SUBSIDIARIES
(A Domestic Mutual Life Insurance Company)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2020	2019
ASSETS		
Cash and Cash Equivalents (Note 4)	**₱5,091,113,917**	₱4,596,504,583
Short-term Investments (Note 5)	**283,733,405**	47,596,900
Insurance Receivables (Note 6)	**222,551,516**	195,206,781
Financial Assets (Note 7)		
Fair value through profit or loss	**36,306,342,905**	35,401,668,769
Available-for-sale (AFS)	**63,392,958,776**	62,219,213,352
Held-to-maturity	**429,868,005**	200,069,276
Loans and receivables	**13,104,539,075**	14,489,091,365
Investments in Associates (Note 8)	**17,323,362,028**	16,197,507,735
Investment Properties (Note 9)	**6,414,418,192**	6,767,571,107
Property and Equipment (Note 10)	**1,999,392,851**	1,889,419,079
Retirement Benefits Asset (Note 24)	**1,022,180**	88,469,376
Deferred Income Tax Assets - net (Note 25)	**3,084,638,707**	31,318,073
Other Assets (Note 11)	**1,042,776,385**	1,083,870,968
TOTAL ASSETS	**₱148,696,717,942**	₱143,207,507,364
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Legal policy reserves (Note 12)	**₱69,356,604,797**	₱58,161,645,107
Other insurance liabilities (Note 13)	**40,324,977,066**	38,340,581,928
Accrued expenses and other liabilities (Note 14)	**1,828,108,180**	1,710,317,216
Retirement benefits liability (Note 24)	**81,944,087**	6,154,514
Deferred income tax liabilities - net (Note 25)	**261,819**	1,066,363,570
Total Liabilities	**111,591,895,949**	99,285,062,335
Members' Equity		
Reserve for fluctuation in AFS/financial assets at fair value through other comprehensive income (FVOCI):		
Attributable to the Group (Note 7):		
Equity securities	**1,214,879,250**	4,850,752,370
Debt securities	**6,615,350,753**	3,447,945,709
Attributable to associates (Note 7)	**29,617,324**	12,408,281
	7,859,847,327	8,311,106,360
Cumulative re-measurement losses on defined benefit plan		
Attributable to the Group (Note 24)	**(101,319,933)**	(77,171,177)
Attributable to the associates (Note 8)	**(139,798,442)**	(66,148,376)
	(241,118,375)	(143,319,553)
Premium on deemed disposal of investment in an associate (Note 7)	**304,954,486**	304,954,486
Cumulative re-measurement on life insurance reserves (Note 12)	**(8,338,999,623)**	1,069,189,322
Retained earnings - net (Notes 15 and 32):		
Appropriated	**1,500,000,000**	900,000,000
Unappropriated	**36,020,138,178**	33,480,514,414
Total Members' Equity	**37,104,821,993**	43,922,445,029
TOTAL LIABILITIES AND MEMBERS' EQUITY	**₱148,696,717,942**	₱143,207,507,364

See accompanying Notes to Consolidated Financial Statements.

THE INSULAR LIFE ASSURANCE COMPANY, LTD. AND SUBSIDIARIES
(A Domestic Mutual Life Insurance Company)

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31	
	2020	2019
REVENUE		
Insurance Revenue (Note 16)		
Gross earned premiums on insurance contracts	**₱11,364,953,459**	₱13,657,093,676
Reinsurers' share of premiums on insurance contracts	**(698,081,803)**	(157,076,994)
Net Insurance Revenue	**10,666,871,656**	13,500,016,682
Operating Revenue		
Investment income (Note 17)	**4,074,648,458**	5,230,143,080
Equity in net earnings of associates (Note 8)	**1,882,340,937**	2,279,772,787
Rental income (Notes 9 and 27)	**728,714,363**	740,863,514
Net realized gains on sale of financial assets and real properties (Note 18)	**258,841,365**	387,362,647
Other income (Note 29)	**543,276,458**	600,826,769
Total Operating Revenue	**7,487,821,581**	9,238,968,797
Total Revenue	**18,154,693,237**	22,738,985,479
INSURANCE BENEFITS OPERATING EXPENSES		
Insurance Benefits Expenses (Note 19)		
Gross benefits and claims on insurance contracts	**12,826,603,657**	14,387,095,709
Reinsurers' share of benefits and claims on insurance contracts	**(141,679,727)**	(68,562,651)
Net change in (Note 12):		
Legal policy reserves	**(2,247,330,549)**	(1,444,391,492)
Reinsurers' share in legal policy reserves	**2,020,317**	(17,258,042)
Net Insurance Benefits Expenses	**10,439,613,698**	12,856,883,524
Operating Expenses		
General insurance expenses (Note 20)	**2,305,013,017**	2,336,831,273
Commissions and other acquisition expenses	**1,146,366,150**	1,680,405,328
Investment expenses (Note 21)	**150,290,106**	194,979,012
Other losses (Note 22)	**413,386,782**	317,840,756
Total Operating Expenses	**4,015,056,055**	4,530,056,369
Total Insurance Benefits and Operating Expenses	**14,454,669,753**	17,386,939,893
INCOME BEFORE INCOME TAX	**3,700,023,483**	5,352,045,586
PROVISION FOR INCOME TAX (Note 25)	**560,399,719**	498,629,647
NET INCOME	**₱3,139,623,764**	₱4,853,415,939

See accompanying Notes to Consolidated Financial Statements.

THE INSULAR LIFE ASSURANCE COMPANY, LTD. AND SUBSISIDIARIES
(A Domestic Mutual Life Insurance Company)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2020	2019
NET INCOME	**₱3,139,623,764**	₱4,853,415,939
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that recycle to profit or loss in subsequent periods:		
Decrease in value of available-for-sale equity securities (Notes 7)	**(3,635,371,148)**	(3,875,715,375)
Share in other comprehensive income of associates	**23,462,659**	20,566,408
Consequential deferred income tax impact	**(501,972)**	(1,701,865)
	(3,612,410,461)	(3,856,850,832)
Increase in value of available-for-sale debt securities (Notes 7)	**3,169,584,395**	6,188,523,717
Share in other comprehensive losses of associates	**(6,253,616)**	(45,217)
Consequential deferred income tax impact	**(2,179,351)**	(4,989,841)
	3,161,151,428	6,183,488,659
Items that do not recycle to profit or loss in subsequent periods:		
Re-measurement gains losses on defined benefit plan (Note 24)	**(34,498,223)**	(45,005,700)
Share in other comprehensive losses of associates	**(73,650,066)**	(61,787,029)
Consequential deferred income tax impact	**10,349,467**	13,501,710
	(97,798,822)	(93,291,019)
Re-measurement losses on life insurance reserves (Note 12)	**(13,440,269,922)**	(5,248,000,062)
Consequential deferred income tax impact	**4,032,080,977**	1,574,400,018
	(9,408,188,945)	(3,673,600,044)
TOTAL OTHER COMPREHENSIVE LOSS	**(9,957,246,800)**	(1,440,253,236)
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱6,817,623,036)**	₱3,413,162,703

See accompanying Notes to Financial Statements.

THE INSULAR LIFE ASSURANCE COMPANY, LTD. AND SUBSIDIARIES
(A Domestic Mutual Life Insurance Company)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Reserve for Fluctuation in AFS/FVOCI Financial Assets			Cumulative Re-measurement Gains (losses) on Defined Benefit Plan		Premium on Deemed Disposal of Investment in an Associate	Cumulative Re-measurement Gains (Losses) on Life Insurance Reserves	Retained Earnings (Notes 15 and 33)		
	Attributable to the Parent Company		Attributable to the Associates	Attributable to the Parent	Attributable to the Associates					
	Equity Securities (Note 7)	Debt Securities (Note 7)	(Note 7)	(Note 24)	(Note 7)	(Note 7)	(Nootte 12)	Appropriated	Unappropriated	Total
BALANCES AT DECEMBER 31, 2019	₱8,728,169,610	(₱2,735,588,167)	(₱8,112,910)	(₱45,667,187)	(₱4,361,347)	₱304,954,486	₱4,742,789,366	₱550,000,000	₱28,978,710,124	₱40,510,893,975
Total comprehensive income (loss)	(3,877,417,240)	6,183,533,876	20,521,191	(31,503,990)	(61,787,029)	–	(3,673,600,044)	–	4,853,415,939	3,413,162,703
Effect of adoption of PFRS 16	–	–	–	–	–	–	–	–	(1,611,649)	(1,611,649)
Additional appropriation (Notes 15 and 33)	–	–	–	–	–	–	–	350,000,000	(350,000,000)	–
BALANCES AT DECEMBER 31, 2019	**₱4,850,752,370**	**₱3,447,945,709**	**₱12,408,281**	**(₱77,171,177)**	**(₱66,148,376)**	**₱304,954,486**	**₱1,069,189,322**	**₱900,000,000**	**₱33,480,514,414**	**₱43,922,445,029**
BALANCES AT DECEMBER 31, 2019	**₱4,850,752,370**	**₱3,447,945,709**	**₱12,408,281**	**(₱77,171,177)**	**(₱66,148,376)**	**₱304,954,486**	**₱1,069,189,322**	**₱900,000,000**	**₱33,480,514,414**	**₱43,922,445,029**
Total comprehensive income (loss)	(3,635,873,120)	3,167,405,044	17,209,043	(24,148,756)	(73,650,066)	–	(9,408,188,945)	–	3,139,623,764	(6,817,623,036)
Additional appropriation (Notes 15 and 33)	–	–	–	–	–	–	–	600,000,000	(600,000,000)	–
BALANCES AT DECEMBER 31, 2020	**₱1,214,879,250**	**₱6,615,350,753**	**₱29,617,324**	**(₱101,319,933)**	**(₱139,798,442)**	**₱304,954,486**	**(₱8,338,999,623)**	**₱1,500,000,000**	**₱36,020,138,178**	**₱37,104,821,993**

See accompanying Notes to Consolidated Financial Statements.

THE INSULAR LIFE ASSURANCE COMPANY, LTD. AND SUBSIDIARIES
(A Domestic Mutual Life Insurance Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱3,700,023,484**	₱5,365,516,090
Adjustments for:		
Interest income (Note 17)	**(3,667,190,028)**	(3,775,518,956)
Dividend income (Note 17)	**(317,472,657)**	(1,144,859,661)
Net change in legal policy reserves (Note 12)	**(2,245,310,232)**	(1,461,649,534)
Interest expense	**280,443,642**	304,843,319
Amortization of premium/discount on investmetns in debt financial assets	**50,856,676**	126,207,744
Loss (gain) on derivative liability	**–**	(50,356,772)
Share in equity in net earnings of associates	**(1,882,340,937)**	(2,279,772,787)
Net realized gain on disposals of (Note 18):		
Available-for-sale financial assets (Note 7)	**(184,797,333)**	(350,057,175)
Investment properties	**(73,692,311)**	(36,703,874)
Repossessed real properties	**(478,329)**	(311,598)
Depreciation and amortization of:		
Investment properties (Note 9)	**119,367,122**	123,536,389
Property and equipment and computer software (Notes 10 and 11)	**160,345,878**	160,727,879
Net changes in retirement benefits asset or liability (Note 24)	**128,738,545**	8,939,362
Impairment loss on available-for-sale equity securities (Notes 6 and 22)	**236,000,000**	140,268,919
Provision for credit losses on loans and receivables (Note 7)	**27,220,937**	226,456
Foreign exchange (gain) loss - net	**177,386,780**	177,571,837
Operating loss before working capital changes	**(3,490,898,763)**	(2,691,392,362)
Changes in operating assets and liabilities:		
Net decrease (increase) in:		
Financial assets at fair value through profit or loss	**(904,517,050)**	(2,535,390,747)
Loans and receivables	**346,436,970**	872,542,492
Insurance receivables	**(27,344,735)**	(7,258,475)
Other assets	**39,095,033**	23,453,318
Net increase (decrease) in:		
Other insurance liabilities	**1,939,559,784**	3,039,159,541
Accrued expenses and other liabilities	**90,830,777**	(35,478,515)
Net cash used in operations	**(2,006,837,984)**	(1,334,364,748)
Income taxes paid	**(625,872,980)**	(1,245,074,647)
Net cash used in operating activities	**(2,632,710,964)**	(₱2,579,439,395)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	**3,132,351,939**	3,746,034,946
Collections of loans and receivable	**2,713,957,303**	992,483,095
Releases of loans and receivables	**(1,125,000,000)**	(250,000,000)
Proceeds from disposals and/or maturities of:		
Available-for-sale financial assets (Note 7)	**6,435,926,704**	2,037,674,668
Held-to-maturity financial assets (Note 7)	**87,900,000**	574,100,000
Investment properties	**136,292,586**	284,405,871
Property and equipment	**27,191,385**	25,224,990

(Forward)

	Years Ended December 31	
	2020	2019
Dividends received	**₱1,015,973,672**	₱1,518,777,666
Additional investments in:		
Short-term investments	**(236,136,505)**	(47,596,900)
Available-for-sale financial assets (Note 7)	**(8,278,984,528)**	(3,879,206,945)
Investment properties (Note 9)	**(23,217,495)**	(267,702,968)
Property and equipment and computer software (Notes 10 and 11)	**(86,382,942)**	(216,714,506)
Held-to-maturity financial assets (Note 7)	**(305,861,817)**	(161,855,167)
Net cash generated from investing activities	**3,494,010,302**	4,355,624,750
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of dividends and interest to members	**(292,757,188)**	(674,640,719)
Payment of lease liabilities	**(7,234,235)**	(10,950,439)
Redemption of preferred shares (Note 28)	**–**	–
Issuances of preferred shares (Note 28)	**–**	–
Net cash used in financing activities	**(299,991,423)**	(685,591,158)
NET (INCREASE) DECREASE IN CASH AND CASH EQUIVALENTS	**561,307,915**	1,090,594,197
NET FOREIGN EXCHANGE GAINS	**(66,698,581)**	36,335,140
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4,596,504,583**	3,469,575,246
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱5,091,113,917**	₱4,596,504,583

See accompanying Notes to Financial Statements.

1. Corporate Information and Authorization for the Issuance of the Financial Statements

1.1. Corporate Information

The Insular Life Assurance Company, Ltd. (the "Parent Company"), a mutual life insurance company primarily engaged in the life insurance business, was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on November 25, 1910. The Parent Company will be celebrating its 111th year anniversary on November 25, 2021.

The registered business address of the Parent Company is Level 30 Insular Life Corporate Centre, Insular Life Drive, Filinvest Corporate City, Alabang, Muntinlupa City.

The Parent Company and its subsidiaries (collectively referred to as the "Group") are primarily engaged in the business of life insurance, healthcare, lending, and investment management (Note 28).

1.2. Authorization for Issuance of the Financial Statements

The consolidated financial statements of the Group were approved and authorized for issuance by the Board of Trustees (BOT) on April 22, 2021.

2. Summary of Significant Accounting and Financial Reporting Policies

2.1. Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

2.2. Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets that have been measured at fair value.

The financial statements are presented in Philippine Peso (Peso), which is the Group's functional and presentation currency. All amounts were rounded to the nearest Peso, except when otherwise indicated.

2.3. Changes in Accounting Policies

2.3.1. New Standards and Interpretations Issued and Effective as at January 1, 2020

The accounting policies adopted are consistent with those of the previous financial year except for the following new pronouncements and amendments to existing PFRS that became effective beginning January 1, 2020 and which did not have any significant impact on the Group's financial statements, unless otherwise stated.

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

- Conceptual Framework for Financial Reporting issued on March 29, 2018
- Amendments to PFRS 16, *COVID-19-related Rent Concessions*

2.3.2. Standards Issued but Not Yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2021

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
- Annual Improvements to PFRSs 2018-2020 Cycle
  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
  - Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*
  - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

Effective beginning on or after January 1, 2023

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
    A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted. This effectivity date is aligned with the original effectivity date of IFRS 17 upon the issuance of the Standard in May 2017 by the International Accounting Standards Board (IASB). The IASB agreed last June 2020 to defer the effective date of IFRS 17 to annual reporting periods beginning January 1, 2023. The IASB also extended the fixed expiry date of the temporary exemption from IFRS 9, *Financial Instruments* for qualifying insurers so that qualifying entities can defer adoption of IFRS 9 until January 1, 2023. On August 19, 2020, the Financial Reporting Standards Council (FRSC) adopted the amendments to IFRS 17 issued by IASB as part of PFRS 17.

In 2020, the Insurance Commission (IC) issued Circular Letter (CL) 2020-62 which deferred the implementation of IFRS 17 for life and non-life insurance companies to January 1, 2025 or two years from the global effectivity date. IC CL 2019-66 was also issued in 2019 requiring insurance and reinsurers that will adopt IFRS 17 using the IC deferred timeline to disclose the impact of IFRS 17 in the notes to the financial statements effective upon the date the IASB implements IFRS 17 (2023).

Further, the Philippine Securities and Exchange Commission (SEC), under SEC Memorandum Circular No.8 , Series of 2020, approved the adoption of Philippine Financial Reporting Standard (PFRS) 17, *Insurance Contracts* as part of SEC's rules and regulations on financial reporting effective for annual reporting periods beginning on or after January 1, 2021. PFRS 17 was previously adopted and approved by the Financial Reporting Standards Council, the Board of Accountancy and the Professional Regulations Commissions based on IFRS 17 without any modifications.

As of December 31, 2020, the Company was able to evaluate, acquire, and configure the appropriate software solution and perform tests to generate the relevant financial reports. An end-to-end system process testing is being performed by the Company to enhance data capture, improve actuarial models and finalize the relevant methodology and assumptions to be adopted. The Company has an ongoing impact assessment of the movement in fund balances and attribution of cash flows to insurance contracts. The Company has also reviewed and started to implement changes to existing accounting practices as part of the preparations for PFRS 17 adoption.

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

2.4. Basis of Consolidation

The consolidated financial statements comprise the financial statements of Parent Company and its subsidiaries (the Group) as at and for the years ended December 31, 2020 and 2019.

Specifically, the Group controls an investee if and only if it has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure (or rights) to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. A subsidiary is an entity that is controlled by the Parent Company (i.e., either directly or through intermediate parent companies within the Group). Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income, and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the date the Parent Company gain control until the date the Parent Company ceases to control the subsidiary.

Following are the Parent Company's 100%-owned subsidiaries as of December 31, 2020 and 2019:

- Insular Investment Corporation (IIC)
  - IITC Properties, Inc.*
  - Insular Property Ventures, Inc.*
- Insular Health Care Incorporated (I-Care)
- Insular Life Management and Development Corporation (ILMADECO)
  - ILAC General Insurance Agency, Inc. (ILAC-Gen)**
- Insular Life Property Holdings, Inc. (ILPHI)

**Represents the Company's ownership through IIC*
***Represents the Company's ownership through ILMADECO*

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses, and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The financial statements of the subsidiaries are prepared for the same reporting years as the Group, except for ILMADECO which is consolidated based on its financial statements as of March 31, 2021 and 2020 and for the years then ended, using consistent accounting principles and policies.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it: (a) derecognizes the assets and liabilities of the subsidiary; (b) derecognizes the carrying amounts of any non-controlling interest; (c) derecognizes the cumulative translation differences recorded in equity; (d) recognizes the fair value of consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in profit or loss; and (g) reclassifies the parent's share of components previously recognized in OCI to profit or loss.

2.5. Fair Value Measurement

The Group measures its financial assets at FVPL and AFS at fair value at each reporting date. Also, the fair values of held-to-maturity (HTM) securities, and other financial liabilities measured at amortized cost are disclosed in Note 30.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; or
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's management determines the policies and procedures for both recurring and non-recurring fair value measurement.

At each reporting date, the management analyzes the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics, and risks of the asset or liability, and the level of the fair value hierarchy as explained in previous page.

2.6. Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition and that are subject to an insignificant risk of change in value.

2.7. Short-term Investments
Short-term investments are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of more than three months but less than one year from dates of placemen. These earn interests at the respective short-term investment rates.

2.8. Financial Instruments
The Company recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument

All regular way purchases and sales of financial assets are recognized on the trade date, i.e., the date the Group commits to purchase or sell the financial asset. Regular way purchases or sales of financial assets require delivery of financial assets within the time frame generally established by regulation or convention in the market place.

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs, if any, are included in the initial measurement of all financial assets and financial liabilities, except for financial instruments measured at FVPL.

The Group classifies its financial assets as financial assets at FVPL, HTM financial assets, loans and receivables, or AFS financial assets, as appropriate. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities, as appropriate. The classification depends on the purpose for which the financial instruments were acquired or originated. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

2.8.1. *Financial Assets*

(a) Financial Assets at FVPL

Financial assets at FVPL include financial assets held-for-trading purposes or designated by management as financial asset at FVPL at initial recognition. Derivative instruments, except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term.

Financial assets are designated as at FVPL by management on initial recognition when any of the following is met:

i. The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the financial assets or recognizing gains or losses on them on a different basis;
ii. The financial assets are part of a Group of financial assets which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or
iii. The financial asset contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

These financial assets are subsequently measured at fair market value. Realized and unrealized gains and losses arising from changes in fair market value of financial assets at

FVPL are recognized in the statements of income. Interest earned on debt securities is recognized as the interest accrues. Dividend income on equity securities is recognized according to the terms of the contract or when the right to receive payment has been established.

The Group's financial assets at FVPL amounting to ₱32,912,574,209 and ₱31,742,159,799 as of December 31, 2020 and 2019, respectively, are designated at FVPL by management at initial recognition (Note 7). These financial assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis in accordance with a documented investment strategy. The Group manages these financial assets in accordance with the investment strategy and valuation provisions of the Variable Unit-Linked (VUL) insurance contracts. Likewise, this is consistent with the valuation basis of the reserve for policies held by the policyholders. These financial assets consist primarily of quoted government and corporate debt securities with fixed interest rates, quoted equity securities, and structured notes.

The Group also has investments in quoted preferred equity shares and investments in mutual funds amounting to ₱3,393,768,696 and ₱3,659,508,970 as of December 31, 2020 and 2019, respectively, which are designated as at FVPL (Note 7).

(b) HTM Financial Assets

HTM financial assets are non-derivative financial assets that are quoted in the market, with fixed or determinable payments and fixed maturity which the Group has the positive intention and ability to hold to maturity. Financial assets intended to be held for an undefined period are not included in this classification. HTM financial assets are subsequently measured at amortized cost. The amortized cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums and discounts. Gains and losses are recognized in the statements of income when the financial assets are derecognized, impaired, or amortized.

The Group's HTM financial assets consist of quoted government and corporate debt securities with fixed interest rates (Note 7).

(c) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortized cost. The amortized cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums and discounts. Gains and losses are recognized in the statements of income when the financial assets are derecognized, impaired, or amortized.

The Group's loans and receivables consist of cash and cash equivalents, insurance receivables, unquoted debt security, term loans, policy loans, accounts receivable, interest receivable, housing loans, car financing loans, mortgage loans, due from agents, and other receivables (Note 7).

(d) AFS Financial Assets

AFS financial assets are non-derivative financial assets which are designated as such or do not qualify to be classified as designated as at FVPL, HTM, or loans and receivables. Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions.

AFS financial assets are subsequently measured at fair market value. When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity securities, these financial assets are carried at cost, less any allowance for impairment losses.

The effective yield component of AFS debt securities as well as the impact of translation of foreign currency-denominated AFS debt securities is reported in the consolidated statements of income. Interest earned on holding AFS financial assets is reported as interest income using the effective interest method. Dividends earned on holding AFS financial assets are recognized in the statements of income as investment income when the right to receive payment has been established. Unrealized gains and losses arising from changes in fair market value of AFS financial assets are reported in OCI until the financial asset is derecognized or as the financial asset is determined to be impaired.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as realized gain in the consolidated statements of income.

The Group's AFS financial assets consist of quoted government and corporate debt securities with fixed interest rates, and quoted and unquoted equity securities (Note 7).

2.8.2. *Financial Liabilities*

Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. Other financial liabilities are non-derivative financial liabilities with fixed or determinable payment that are not quoted in an active market.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. The amortized cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums and discounts. Gains and losses are recognized in the statements of income when the financial liabilities are derecognized, impaired, or amortized.

The Group's other financial liabilities consist of accrued expenses and other liabilities except for provisions and statutory liabilities (Note 14).

2.8.3. *Embedded Derivatives*

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

An embedded derivative is separated from the host financial or non-financial contract and accounted for as a derivative if all of the following conditions are met:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- The hybrid or combined instrument is not recognized as at FVPL.

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets at FVPL. Changes in fair values are included in the consolidated statements of income.

2.8.4. *Day 1 gain or loss*

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (Day 1 gain or loss) in the consolidated statements of income unless it qualifies for recognition as some other type of asset. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the Day 1 amount.

2.8.5. *Offsetting of Financial Instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements and the related assets and liabilities are presented gross in the consolidated statements of financial position.

2.9. Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to: deliver cash or another financial asset to another entity; exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instruments as a whole the amount separately determined as the fair value of the liability component on the date of issue.

2.10. Derecognition of Financial Instruments

2.10.1. *Financial Assets*

A financial asset is derecognized when:

- the right to receive cash flows from the financial asset has expired;
- the Group retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its right to receive cash flows from the financial asset and either: (a) has transferred substantially all the risks and rewards of the financial asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset.

Where the Group has transferred its rights to receive cash flows from a financial asset and has neither transferred nor retained substantially all the risks and rewards of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Group's continuing involvement in the financial asset.

2.10.2. *Financial Liabilities*

A financial liability is derecognized when the obligation under the financial liability is extinguished, i.e., when discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing financial liability are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability and the difference in the respective carrying amounts is recognized in the statements of income.

2.11. Impairment of Financial Assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default, or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.11.1. *Financial Assets Carried at Amortized Cost*

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding expected future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate, i.e., the effective interest rate computed at initial recognition. The carrying amount of the financial asset shall be reduced either directly or through the use of an allowance account. HTM financial assets and loans and receivables, together with the associated allowance accounts are written off when there is no realistic prospect of future recovery and all the collaterals have been realized. The amount of the loss shall be recognized in the consolidated statements of income.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. Objective evidence includes observable data that comes to the attention of the Group about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial re-organization. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the financial asset is included in a group of financial assets with similar credit risk characteristics such as customer type, payment history, past due status and term, and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of income to the extent that the carrying value of the financial asset does not exceed its amortized cost at the reversal date.

The Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment loss. The review is accomplished using a combination of specific and collective assessment approaches, with the impairment loss being determined for each risk grouping identified by the Group.

2.11.2. *AFS Financial Assets*

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated statements of income, is transferred from OCI to the consolidated statements of income.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Investment income" in the consolidated statements of income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss is recognized in the consolidated statements of income, the impairment loss is reversed through the consolidated statements of income.

In case of equity securities classified as AFS financial assets, objective evidence would include a significant or prolonged decline in the fair value of the financial assets below its cost or where other objective evidence of impairment exists. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statements of income, is removed from OCI and recognized in the consolidated statements of income. Impairment losses on equity securities are not reversed through the consolidated statements of income. Increases in fair value after impairment and reversals of impairment losses on equity instruments are recognized directly in OCI.

2.11.3. *Financial Assets Carried at Cost*
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

2.12. Investments in Associates
The investments in associates are accounted for under the equity method. An associate is an entity in which the Group has significant influence.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances. The Group adjusts the equity and profit or loss of the associates, as applicable, for any significant difference in accounting policies for like transaction and similar circumstances except for the accounting for financial instruments starting 2018. Beginning January 1, 2018, the Group applies the temporary exemption from PFRS 9 but UBP applies PFRS 9 as permitted under the Amendments to PFRS 4 (Note 8).

The Group's percentages of ownership in the shares of stock of associates as of December 31 are as follows:

	Percentage of Ownership	
	2020	2019
PPI Prime Ventures, Inc. (PPVI)	**30.00%**	30.00%
Mapfre Insular Insurance Corporation (MIIC)	**25.00%**	25.00%
Union Bank of the Philippines (UBP)	**16.29%**	16.32%

Under the equity method, the investments in associates are carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates adjusted for the financial impact of significant differences in accounting policies for like transactions and similar circumstances. The Group determines whether it is necessary to recognize any impairment loss in respect to the Group's net investment in the associate. The consolidated statements of income reflect the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share on the said change and discloses this, when applicable, in the consolidated statements of changes in members' equity. Profits or losses resulting from transactions between the Group and the associates are eliminated to the extent of the Group's interest in the associate.

The statement of income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of associates and a joint venture is shown on the face of the statement of income outside operating profit and represents share in the profit or loss after tax.

Reduction in investment in an associate deemed as disposal is accounted for using the entity concept method. Under the entity concept method, the Group should regard the deemed disposal of investment in an associate as an equity transaction. Gain or loss from the deemed disposal of investment in an associate is recognized as a separate component in the members' equity section of the consolidated statements of financial position (Note 8).

2.13. Investment Properties

Investment properties consist of land, buildings, and improvements (or portion of them) owned by the Group that are leased to others or held for capital appreciation or both. Investment properties are stated at cost, including transaction costs, less accumulated depreciation and amortization and any impairment in value. Depreciation of building and improvements is computed on a straight-line method over the estimated useful life of the properties of 40 years and 10 years, respectively.

Investment properties are derecognized when they have been disposed, permanently withdrawn from use, or when no future economic benefit is expected from their disposal. Any gain or loss on the disposal of an investment property is recognized in the consolidated statements of income in the year of disposal.

The investment properties' use, estimated useful life, and method of depreciation and amortization are reviewed on a regular basis and transferred to other property accounts, if appropriate, upon determination of change in use.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

For a transfer from investment property to property and equipment and transfer of property and equipment to investment property, the Group accounts for such property in accordance with the policy stated under investment property and property and equipment, respectively, up to the date of change in use.

Where a single property is partly held for use in the supply of services and partly for capital appreciation or rentals, the Group accounts for these portions separately if these portions could be separately sold or leased out under a finance lease. If these portions could not be sold separately, the property is considered by management as investment property only if an insignificant portion is held for use in the supply of services.

2.14. Property and Equipment

Property and equipment, including owner-occupied properties, except for land, are stated at cost, net of accumulated depreciation and amortization and any impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to consolidated statements of income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the property and equipment.

Depreciation and amortization of property and equipment commence, once the property and equipment are available for use and are computed using the straight-line method over the estimated useful lives (EUL) of the assets regardless of utilization.

The EUL of property and equipment of the Group follows:

	Years
Buildings	40
Building equipment	25
Furniture, fixtures, and equipment	3-10
Electronic and data processing equipment	3-5
Transportation equipment	4-5
Right-of-use asset	5-10

Leasehold improvements are amortized over the term of the lease or the EUL of five years, whichever is shorter.

Depreciation of an item of property and equipment begins when the asset becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

The assets' residual values, estimated useful lives, and depreciation and amortization method are reviewed and adjusted, if appropriate, at each financial year-end.

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising from its derecognition, calculated as the difference between the net disposal proceeds and the carrying amount of the property and equipment, is included in the consolidated statements of income in the year the property and equipment is derecognized.

It is the Group's policy to classify right-of-use assets as part of property and equipment. Refer to the accouting policies on Right-of-use assets in Note 2.22.1.

2.15. Computer Software

Computer software, included under "Other assets" in the consolidated statements of financial position, is carried at cost less accumulated amortization and impairment loss, if any. Costs incurred to acquire computer software (not an integral part of its related hardware) and bring it to its intended use and costs directly associated with the development of identifiable computer software that generate expected future benefits to the Group are capitalized. All other costs of developing and maintaining computer software programs are recognized as expenses as incurred. These costs are amortized over the EUL of five years. Subsequently, computer software is measured at cost, less any accumulated amortization and any accumulated impairment loss.

Periods and method of amortization for computer software are reviewed annually or earlier when an indicator of impairment exists.

2.16. Impairment of Nonfinancial Assets

The Group's nonfinancial assets consist of investments in associates, investment properties, property and equipment, and other assets.

At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash generating unit).

An impairment loss is charged against operations in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged against the revaluation increment of the said asset.

For nonfinancial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit and loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its estimated remaining life.

2.17. Retained Earnings

Retained earnings represent the cumulative balance of net income, dividend distributions, and other capital adjustments, including retrospective restatements. Retained earnings may be classified as unappropriated retained earnings and appropriated retained earnings. Unappropriated retained earnings represent that portion which is free and can be declared as dividends to members.

Appropriated retained earnings represent that portion which is restricted and, therefore, not available for any dividend declaration.

2.18. Insurance Contracts

2.18.1. *Product Classification*

(a) Insurance and Investment Contracts

Insurance contracts are those contracts where the Group has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk by comparing benefits payable on occurrence of insured event with benefits payable on non-occurrence of insured event at inception. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index or price or rates, a credit rating or credit index, or other variable.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations have been extinguished or have expired. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance and investment contracts are further classified as being either with or without discretionary participation features (DPF). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the issuer; and
- contractually based on the: (a) performance of a specified pool of contracts or a specified type of contract; (b) realized and/or unrealized investment returns on a specified pool of assets held by the issuer; or (c) profit or loss of the Company, fund or other entity that issues the contract.

(b) Variable Unit-Linked (VUL) Insurance Contracts

The Group issues VUL insurance contracts. In addition to providing life insurance coverage, a VUL insurance contract links payments to units of an investment fund set up by the Group with the consideration received from the policyholders. Premiums received from the issuance of VUL insurance contracts are recognized as premium revenue. As allowed by PFRS 4, *Insurance Contracts,* the Group chose not to unbundle the investment fund of its VUL insurance contracts.

The liability for the investment portion of VUL insurance contracts is increased by additional deposits and changes in unit prices and is decreased by policy administration fees, fund charges, mortality and surrender charges, and any withdrawals. As of the reporting date, this liability is computed on the basis of the number of units allocated to the policyholders multiplied by the unit price of the underlying investment funds.

The fund assets and liabilities are separately administered by, under Separate Funds by the Parent Company's trustee, a third party multinational bank accredited by the Bangko Sentral ng Pilipinas (BSP). The fund assets are designated as financial assets at FVPL and are valued on a basis consistent with the measurement basis in the consolidated statements of financial position. The fund liabilities are included in "Members' deposits and other funds on deposit" under "Other insurance liabilities" (Note 13).

(c) Options and Guarantees

Options and guarantees within insurance contracts are treated as derivative financial instruments which are clearly and closely related to the host contract and are, therefore, not accounted for separately.

2.18.2. *Recognition and Measurement*

(a) Premiums

Premiums are recognized as revenue when they become due from the policyholders which, for single premium business, is the date from which the policy is effective. Due premiums which remain unpaid within the statutory defined limit are recognized as part of assets.

(b) Membership fees

Membership fees from membership contracts of I-Care are recognized using the 24^{th} method.

(c) Reinsurance Assets

The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

The Group also assumes reinsurance risk in the normal course of business. Premiums and claims on assumed reinsurance are recognized in the consolidated statements of income in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Claims receivable from reinsurers on businesses ceded are offset against premiums payable to the reinsurers which is customary in the industry.

An impairment review is performed on all due premiums and reinsurance assets whenever events or circumstances indicate that impairment loss occurs. Due premiums and reinsurance assets are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that this can be measured reliably. If such evidence exists, impairment loss is recognized in the consolidated statements of income.

The Group uses the statutory guideline in evaluating impairment wherein premiums remaining unpaid beyond a limit set by the IC are impaired and are no longer recognized in the financial statements.

(d) Legal Policy Reserves

For traditional policies with coverages beyond one year, the liability is calculated based on the Gross Premium Valuation ("GPV") method and is the sum of the present values of future benefits (including death, surrender, maturity, survivorship, dividends) and expenses (commissions, policy taxes, operational expenses), less the present value of future gross premiums arising from the policy discounted at the appropriate risk-free discount rate for policies with coverages beyond one year. These expected future cash flows are determined using best estimate assumptions with due regard to significant recent experience and margin for adverse deviation from the expected experience mandated by recent regulations.

The GPV methodology, projecting all future cash flows that go with a policy and with margins for adverse deviation is deemed to result to acceptable sufficient levels of reserves per regulations. Thus, the GPV methodology is deemed to satisfy provisions of determining reserves sufficiency level under PFRS 4.

For policies with coverages one year or less and for the risk portion of variable unit-linked policies, unearned premium reserves method is used.

(e) Benefits and Claims

Life insurance claims reflect the cost of all claims arising during the year. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

(f) Incurred But Not Reported (IBNR) Claims

IBNR claims are based on the estimated ultimate cost of unreported claims incurred but not settled at the reporting date, together with related claims handling costs. These costs pertain to estimates of the Group's obligations to the policyholders where the Group has not yet received notification. Delays can be experienced in the notification and settlement of obligations; therefore, the ultimate cost of which cannot be known with certainty at the reporting date. The Group develops estimates for IBNR taking into considerations the Group's prior experience.

2.19. Revenue recognition

The Group is primarily engaged in the business of insurance, leasing, investing in financial instruments and fund management. Insurance contracts, leasing agreements and financial instruments are within the scope of PFRS 4, *Insurance Contracts*, PFRS 16, *Leases* and PAS 39, *Financial Instruments: Recognition and Measurement*, respectively. Hence, they are outside the scope of PFRS 15, *Revenue from Contracts with Customers*. Fund management is within the scope of PFRS 15.

The revenue recognition policy for premiums is discussed in Note 2.18.2. Revenue recognition criteria for revenues outside the scope of PFRS 15 follow:

2.19.1. *Interest Income*

Interest income is recognized in the statements of income as it accrues, taking into account the effective interest rate of the related asset or an applicable floating rate. Interest income includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

Interest income on policy loans is earned over the term of the loan, normally over one year. The unearned portion of the interest on policy loans deducted in advance is presented as a contra asset in “Policy loans” under “Loans receivables.”

Interest income on impaired mortgage loans and collateral and guaranteed loans is recognized as cash is received

2.19.2. *Dividend Income*

Dividend income is recognized when the right to receive the payment is established.

2.19.3. *Rental Income*

Rental income from investment properties is recognized on a straight-line basis over the lease term.

2.19.4. *Trading gains and losses*

Trading gains and losses arise from the buying and selling, and changes in fair value of financial assets and financial liabilities categorized upon initial recognition as at FVPL investments and disposal of AFS financial assets.

For the accounting policy on foreign exchange gain, refer to Note 2.23.

2.19.5. *Administrative Fee*

Administrative Fee from Administrative Service Only agreements of I-Care is recognized using 24^{th} method.

2.20. Operating Expenses

Operating expenses are charged to operations when incurred.

2.21. Retirement Benefit Costs

The net retirement benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Retirement benefit costs comprise the following:

- Service cost; and
- Net interest on the net defined benefit liability or asset.

Service costs (which include current service costs, past service costs, and gains or losses on non-routine settlements) are recognized as expense in the consolidated statements of income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net retirement benefit liability or asset is the change during the period in the net benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on risk free rates to the net defined pension liability or asset. Net interest on the net retirement benefit liability or asset is recognized as expense or income in the consolidated statements of income.

Re-measurements comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Re-measurements are not reclassified to profit or loss in subsequent periods.

2.22. Leases

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Group as a lessee

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2.22.1. *Right-of-Use Asset*

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, less any accumulated amortization and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets is amortized on a straight-line basis over the shorter of the estimate useful life and lease term. Right-of-use assets are subject to impairment. Refer to the accounting policies on impairment of non-financial assets discussed in Note 2.16.

2.22.2. *Lease Liabilities*

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in Accrued Expenses and Other Liabilities (Note 14).

2.22.3. *Short-term leases and leases of low-value assets*

The Group does not apply the short-term lease recognition exemption (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also does not apply the leases of low-value assets recognition exemption.

2.23. Foreign Currency-Denominated Transactions and Translations

Transactions in foreign currency are initially recorded at the exchange rate at the date of transaction. Foreign currency denominated monetary assets and liabilities are translated using the closing exchange rate at the reporting date. Exchange differences arising from translation of foreign currency monetary items at rates different from those at which they were originally recorded were recognized in the consolidated statements of income.

Foreign exchange gains are presented in the consolidated statements of income under "Operating revenue," and foreign exchange losses are presented as "Other losses" under "Operating expenses."

For income tax reporting purposes, foreign exchange gains or losses are treated as taxable income or deductible expenses, in the period these are realized.

2.24. Income tax

2.24.1. *Final Tax*

Final tax on interest and dividend income is presented in the consolidated statements of income at the time interest is earned.

2.24.2. *Current Income Tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

2.24.3. *Deferred Income Tax*

Deferred income tax is provided, using balance sheet liability method, on all temporary differences at the reporting date between the tax bases of deferred income tax assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred income tax assets are recognized for all deductible temporary differences, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, net operating loss carry-over (NOLCO), and excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized.

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow all or part of the deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are offset if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

2.25. Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statements of income, net of any reimbursement.

2.26. Contingencies

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefit is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

2.27. Events After the Reporting Date

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are non-adjusting events are disclosed in the notes to the consolidated financial statements when material.

3. Management's Use of Significant Accounting Judgments and Estimates

The Group uses accounting judgments and estimates that affect the reported amounts of assets and liabilities at the reporting date, as well as, the reported income and expenses for the year. Although the judgments and estimates are based on management's best knowledge and judgment of current facts as at the reporting date, the actual outcome may differ from these estimates, possibly significantly. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable. Judgments and estimates are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1. Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on amounts recognized in the consolidated financial statements:

3.1.1. *Product Classification*

The Group has determined that all the products including the VUL insurance contracts it issues that link the payments on the contract to units of an internal investment fund have significant insurance risk and, therefore, meet the definition of an insurance contract and should be accounted for as such. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

3.1.2. *Classification of HTM investments*

The classification to the Held-to-maturity category requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. Financial assets are reclassified out of the HTM category whenever there is change in intention or ability of the Group to hold a financial asset to maturity or when there are sales or reclassifications that are more than an insignificant amount and do not meet the conditions under PAS 39.

In 2019, the Parent Company reclassified all of its peso and dollar HTM debt securities to AFS. The reclassification was driven by a change in management intention. Previously, the intention was to hold the said HTM debt securities until maturity. Starting 2019, the intention has changed to holding the debt securities for an undefined period but may be sold when needed (e.g. to fund claims from policyholders or in response to changes in market conditions). The reclassification also addressed an accounting mismatch since under the Gross Premium Valuation methodology, changes in legal policy reserves due to discount rate are recorded in OCI under Total Members' Equity whereas HTM securities backing the legal policy reserves are carried at amortized cost i.e. changes in fair value of the HTM debt securities are not recognized. With the reclassification of these debt securities to AFS, changes in their fair value will also be recorded in OCI under Total Members' Equity. The impact of this reclassification in 2019 is an increase by ₱3,300,698,134 in Total Assets and Total Members' Equity.

3.1.3. *Determination of Existence of Significant Influence*
The Group's equity investment in Union Bank of the Philippines (UBP) is classified as an associate as the Company has established that it has significant influence over UBP through its representation in the Board of Directors of UBP, the existence of a material transaction between the Company and UBP, and active participation of the representatives of the Company's BOT in the working committees of UBP (Note 8).

3.1.4. *Distinction Between Property and Equipment and Investment Property*
The Group determines whether a property qualifies as property and equipment or investment property. In making its judgment, the Group considers whether the property is held for use in the supply of services, or is held for capital appreciation, and to earn rentals, in which case the property shall be classified as property and equipment or investment property respectively, as the case may be.

There were reclassifications between property and equipment and investment properties amounting to ₱235,264,777 and ₱30,495,776 in 2020 and 2019, respectively (Notes 9 and 10).

3.1.5. *Classification of Leases*

Group as lessor
Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are entered.

Group as lessee
The Group has several lease contracts that include extension and termination options. The renewal periods for leases of branches are not included as part of the lease term as the contract renewals are subject to the agreement of both the lessor and the lessee and are therefore legally unenforceable. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

3.2. Estimates
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities follow:

3.2.1. *Impairment of AFS Equity Securities*
The Group determines AFS equity securities as impaired when there has been a significant or prolonged decline in the fair value of the financial assets below its cost or where other objective evidence of impairment exists. The determination of what is significant or prolonged requires judgment. In making this judgement, the Group considers, among other factors, the normal volatility in share price. In addition, the Group also considers the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The carrying value of the Group's AFS equity securities amounted to ₱11,092,904,691 and ₱14,575,952,477 as of December 31, 2020 and 2019, respectively (Note 7).

3.2.2. *Adequacy of Legal Policy Reserves*

In determining legal policy reserves, best estimates are made as to the policy expense, expected number of deaths, illness, or injury, and also on the number of withdrawing or lapsing policies for each of the years in which the Group is exposed to risk.

These estimates are based on expense, mortality and morbidity, and persistency assumptions based on the Group's actual experience from its latest studies. The estimated number of deaths, illness, or injury and withdrawing or lapsing policies determine the value of possible future benefits to be paid out, which will be factored into ensuring sufficiency of reserves, which in return is monitored against current and future premiums.

Inclusive in the amount of calculated legal policy reserves are the non-guarantee benefits or the policy dividends. Mortality and lapse assumptions are also factored in the computation of the value of these benefits.

The interest rate used to discount these future cash flows are based on the risk-free discount rate, which are obtained from the following sources:

(i) For Philippine Peso policies: PHP BVAL Reference rates from Bloomberg as of December 31, 2019 and 2020;
(ii) For US Dollar policies: International Yield Curve (IYC) from Bloomberg

These yield curve and risk-free discount rates are provided by the IC.

Such regulations also mandate provision for Margins for Adverse Deviations (MfAD) to be applied to the above assumptions.

As prescribed by IC, the fixed MfAD are subject to a minimum of:
(i) Interest: +/- 10% of discount rate;
(ii) Expense: 10% of best estimate expense;
(iii) Other assumptions including but not limited to mortality, morbidity, lapse and conversion: +/- 10% of best estimate assumptions.

The sign (positive or negative) of MfAD for mortality, lapse and interest assumptions are tested by product at the time of valuation. The sign that give higher reserves for a product is used in calculation of the liability.

The carrying value of legal policy reserves amounted to ₱69,356,604,797 and ₱58,161,645,107 as of December 31, 2020 and 2019, respectively (Note 12).

3.2.3. *Estimation of IBNR claims*

Estimates have to be made for the expected ultimate cost of IBNR. The Group develops estimates for the IBNR claims using an actuarial process that is centrally controlled. The actuarial models consider the time from the date the insured event occurred to the time the claim was filed.

Total IBNR claims included under "Claims pending settlement" within "Other insurance liabilities" in the statements of financial position amounted to ₱394,265,659 and ₱237,131,505 as of December 31, 2020 and 2019, respectively (Note 13).

3.2.4. *Estimation of Retirement Benefits Cost*
The cost of defined benefit plans, as well as, the present value of the retirement obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates, and future retirement increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Net retirement benefits asset (liability) amounted to (₱80,921,907) and ₱82,314,862 as of December 31, 2020 and 2019, respectively (Note 24).

3.2.5. *Realizability of Deferred Income Tax Assets*
The carrying amount of deferred income tax assets recognized is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. However, if there is no assurance that the Group will generate sufficient future taxable profits to allow all or part of deferred income tax assets to be utilized, the assets are not recognized in the books.

Deferred income tax assets were not recognized on NOLCO amounting to ₱3,148,792,792 and ₱2,244,189,182 as of December 31, 2020 and 2019, respectively, and excess MCIT over RCIT amounting to ₱53,242,715 and ₱80,180,731 as of December 31, 2020 and 2019, respectively (Note 25).

3.2.6. *Contingencies*
The Group is currently involved in various legal proceedings, including claims for punitive damages, in the normal course of its business. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels and based upon an analysis of potential results. The Group, however, does not believe that such litigations, which are common in the insurance industry in general, will have a material effect on its operating results and financial condition.

4. Cash and Cash Equivalents

	2020	2019
Cash on hand	**₱7,688,055**	₱4,176,576
Cash in banks	**1,806,305,049**	512,527,774
Cash equivalents	**3,277,120,813**	4,079,800,233
	₱5,091,113,917	₱4,596,504,583

Cash in banks earn interest at the prevailing bank deposit rates. Cash equivalents are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term deposit rates.

Cash equivalents earn interest at rates ranging from 0.05% to 2.75% and from 0.50% to 4.00% in 2020 and 2019, respectively.

5. Short-term Investments

As of December 31, 2020 and 2019, short-term investments amounted to ₱283,733,405 and ₱47,596,900, respectively.

Short-term investments represent time deposits with maturities of more than three months but not more than one year from dates of placement and earned interest at annual rates ranging from 0.125% to 0.750% in 2020 and 0.170% in 2019.

Interest income from short-term investments amounted to ₱4,910,200 and ₱733,546 in 2020 and 2019 respectively (see Note 17).

6. Insurance Receivables

	2020	2019
Due premiums	**₱217,240,495**	₱190,443,598
Reinsurance assets	**5,311,021**	4,763,183
	₱222,551,516	₱195,206,781

Due premiums are premiums earned which remain unpaid within the statutory defined limit. Premiums due and uncollected represent premiums on in-force policies which are collectible within the Company's grace period.

Reinsurance assets represent balances due from reinsurance companies, which arise from ceded reinsurance arrangements. Reinsurance assets pertains to amounts recoverable from the reinsurers in respect of claims already paid by the Company which are due and demandable.

7. Financial Assets

The Group's financial assets, excluding cash and cash equivalents, are summarized by measurement categories below:

	2020	2019
Financial assets at FVPL	**₱36,306,342,905**	₱35,401,668,769
AFS financial assets	**63,392,958,776**	62,219,213,352
HTM financial assets	**429,868,005**	200,069,276
Loans and receivables	**13,104,539,075**	14,489,091,365
	₱113,233,708,761	₱112,310,042,762

The financial assets included in each of the categories above are detailed below:

7.1. Financial Assets at FVPL

	2020	2019
Equity securities - quoted	**₱3,393,768,696**	₱3,659,508,970
Under separate funds:		
Traditional VULs:		
Cash and cash equivalents	**2,468,026,878**	2,807,880,285
Equity securities – quoted	**20,736,532,042**	20,733,063,330
Debt securities – quoted		
Government:		
Local currency	**2,668,455,377**	2,106,180,801
Foreign currency	**2,650,582,154**	2,630,487,080
Corporate:		
Local currency	**480,323,984**	193,232,143
Foreign currency	**214,621,990**	93,019,027
Investment in unit investment trust fund (UITF)		
Local currency	**2,192,060,254**	1,652,317,273
Foreign currency	**296,213,353**	–
Other receivables	**153,746,033**	161,149,666
Other payables	**(110,554,837)**	(85,005,796)
Structured VULs:		
Local currency	**455,041,000**	444,592,500
Foreign currency	**707,525,981**	1,005,243,490
	32,912,574,209	31,742,159,799
	₱36,306,342,905	₱35,401,668,769

Quoted equity securities represent preferred listed in the stock exchange and investments in mutual funds. Fair value gains on these equity securities amounted to ₱94,209,726 and ₱162,658,170 in 2020 and 2019, respectively.

The portion of the segregated fund assets attributable to the seed capital of the Company amounted to ₱1,449,226,239 and ₱1,338,816,688 as of December 31, 2020 and 2019, respectively.

Fair value gains (losses) included in the carrying amounts of FVPL financial assets presented in the separate financial statements of VUL funds (i.e., inclusive of fair value gains and losses attributable to the Company and the policy holders) amounted to (₱1,710,099,821) and ₱1,230,228,620 for the years ended December 31, 2020 and 2019, respectively. These financial assets are designated as FVPL in accordance with the investment strategy and valuation provisions of the VUL insurance contracts. Likewise, the valuation basis of reserves for VUL policies held by policyholders is consistent with the reserves valuation methodology set for VUL insurance contracts.

The financial asset at FVPL under separate fund is comprised of:

Traditional VULs

Cash and cash equivalents

Cash in banks earns interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods not exceeding three months depending on the immediate cash requirements of the funds, and earn interest at the prevailing short-term deposit rates.

Equity securities

Equity securities under the separate fund are includes quoted equity securities traded in the Philippine Stock Exchange.

Government debt securities

Interest rate for peso government debt securities under FVPL ranged from 0% to 8.00% in 2020 and from 3.25% to 8.00% in 2019. Interest rate for dollar bonds ranged from 2.46% to 10.63% in 2020 and from 3.00% to 10.63% in 2019.

Corporate debt securities

Corporate debt securities include bonds issued by reputable counterparties. Interest rate for peso corporate debt securities under FVPL is from 3% to 6.10% in 2020 and 4.50% to 6.10% in 2019. Interest rate for dollar bonds ranged from 2.13% to 4.38% in 2020 and from 4.25% to 4.38% in 2019.

Investment in Unit Investment Trust Fund

Unit investment trust fund (UITF) is an open-ended pooled trust fund denominated in peso and dollar, operated and administered by a trust entity and made available by participation.

Other receivables

Other receivables are comprised of accrued interest income from government and corporate debt securities and accrued dividend income from equity securities.

Other payables

Other payables are comprised of custodial fee, fund administration fee, professional fees, and taxes that remain unpaid as of year-end.

Structured VULs

Structured VULs are structured notes issued by Global Issuers and constitute direct, unconditional, unsubordinated, and unsecured obligation of the Issuer.

7.2. AFS Financial Assets

	2020	2019
Equity securities:		
Quoted	**₱10,716,229,670**	₱14,198,628,935
Unquoted	**376,675,021**	377,323,542
	11,092,904,691	14,575,952,477

(Forward)

	2020	2019
Debt securities:		
Quoted:		
Government:		
Local currency	**₱33,571,331,606**	₱30,044,520,511
Foreign currency	**1,202,189,063**	1,186,945,810
Corporate:		
Local currency	**16,938,450,481**	16,056,960,678
Foreign currency	**588,082,935**	354,833,876
	52,300,054,085	47,643,260,875
	₱63,392,958,776	₱62,219,213,352

AFS financial assets are comprised of:

Equity securities
Equity securities include quoted equity securities traded in the Philippine Stock Exchange. These likewise include quoted and unquoted club shares and other non-traded securities.

Government debt securities
Interest rate for peso government debt securities under AFS ranged from 0% to 13.75% in 2020 and 3.25% to 13.75% in 2019. Interest rate for dollar bonds ranged from 2.65% to 9.5% in 2020 from 3.70% to 9.50% in 2019.

Corporate debt securities
Corporate debt securities include bonds issued by reputable counterparties. Interest rate for peso corporate debt securities under AFS ranged from 3.00% to 8.51% in 2020 from 3.89% to 8.51% in 2019. Interest rate for dollar bonds ranged from 2.13% to 5.13% in 2020 and 4.85% to 5.13% in 2019.

The Group's AFS financial assets may be disposed for liquidity requirements or to fund higher-yielding and acceptable investments. Sale of such assets may also be considered if and when offers are received and found acceptable by the Group.

The movement in reserve for fluctuation in value of AFS financial assets as of December 31 follows:

	2020	2019
Equity securities:		
Attributable to the Parent Company:		
Beginning balance	**₱4,850,752,370**	₱8,728,169,610
Valuation losses taken directly to OCI (net of consequential deferred income tax impact)	**(3,702,759,831)**	(6,968,327,118)
Reclassification from HTM to AFS category	**–**	3,300,698,134
Realized gain on sale	**(169,113,289)**	(350,057,175)
Impairment loss (Note 22)	**236,000,000**	140,268,919
Net change during the year	**(3,635,873,120)**	(3,877,417,240)
Ending balance	**₱1,214,879,250**	₱4,850,752,370

(Forward)

	2020	2019
Attributable to the associates:		
Beginning balance	**₱12,453,498**	(₱8,112,910)
Increase (decrease) in value of AFS/FVOCI equity securities attributable to associates, net of tax (Note 8)	**23,462,659**	20,566,408
Ending balance	**35,916,157**	12,453,498
	₱1,250,795,407	₱4,863,205,868

	2020	2019
Debt securities:		
Attributable to the Parent Company:		
Beginning balance	**₱3,447,945,709**	(₱2,735,588,167)
Valuation gains taken directly to OCI	**3,187,932,511**	6,187,891,754
Reclassification from HTM to AFS category	**–**	–
Realized gain on sale of AFS debt investment	**(15,684,044)**	–
Amortization of premium on AFS investments reclassified to HTM financial assets	**(4,843,423)**	(4,357,878)
Net change during the year	**3,167,405,044**	6,183,533,876
Ending balance	**₱6,615,350,753**	₱3,447,945,709
Attributable to the associates:		
Beginning balance	**(45,217)**	–
Increase (decrease) in value of AFS/FVOCI debt securities attributable to associates, net of tax (Note 8)	**(6,253,616)**	(45,217)
Ending balance	**(6,298,833)**	(45,217)
	₱6,609,051,920	₱3,447,900,492

In 2019, the Parent Company reclassified all its HTM debt securities with book value of ₱21,494,360,590 to AFS. The market value of reclassified securities as of December 31, 2019 amounted to ₱24,795,058,724, with net unrealized gain of ₱3,300,698,134 (see Note 3.1.2).

This includes debt securities that the Parent Company reclassified from AFS to HTM financial assets on September 15, 2008. At the date of reclassification, the amortized cost and fair value of the debt securities amounted to ₱283,501,557 and ₱343,106,120, respectively. The difference of fair value and amortized cost as of date of reclassification amounting to ₱59,604,563 was taken directly to equity and is being amortized until maturity. The yield-to-maturity from the debt securities is 10.41%.

The amortization of unrealized gain from the financial asset reclassified in 2008 follows:

	2020	2019
Beginning balance	**₱28,955,961**	₱33,313,840
Amortization	**(4,843,423)**	(4,357,878)
Ending balance	**₱24,112,538**	₱28,955,962

The above unrealized gain continues to be amortized using the effective interest method after the reclassification for the entire HTM portfolio to the AFS category in 2019.

7.3. HTM Financial Assets

The details of HTM financial assets of I-Care as of December 31 follow:

	2020	2019
Government	**₱389,868,005**	₱160,069,276
Corporate	**40,000,000**	40,000,000
	₱429,868,005	₱200,069,276

7.4. Loans and Receivables

	2020	2019
Term loans	**₱4,474,750,000**	₱5,986,976,471
Policy loans (net of unearned interest income)	**5,064,446,030**	5,180,965,103
Accounts receivable	**1,526,429,474**	1,434,086,659
Unquoted debt security	**862,080,000**	931,040,000
Interest receivable	**695,373,684**	616,325,474
Housing loans	**113,862,868**	121,633,700
Car financing loans	**22,454,415**	25,798,946
Mortgage loans	**34,546,814**	36,319,889
Due from agents	**18,630,328**	7,904,827
Others	**333,296,118**	162,150,015
	13,145,869,731	14,503,201,084
Allowance for impairment loss (Note 31)	**(41,330,656)**	(14,109,719)
	₱13,104,539,075	₱14,489,091,365

The classes of loans and receivables of the Group follow:

- Term loans pertain to investments in fixed-rate loans of corporate borrowers with terms ranging from 7 to 15 years both 2020 and 2019. Interest rates range from 4.00% to 10.35% in 2020 and from 4.59% to 10.35% in 2019.

- Policy loans pertain to loans granted to policyholders. The loan is issued with the cash surrender value of the policyholder's insurance policy as collateral. Interest rates on policy loans range from 6% to 14% in both 2020 and 2019. Policy loans as of December 31 follows:

	2020	2019
Policy loans – gross	**₱5,358,286,294**	₱5,480,324,443
Unearned interest income	**(293,840,264)**	(299,359,340)
Policy loans – net	**₱5,064,446,030**	₱5,180,965,103

- Accounts receivable pertain to miscellaneous receivables from employees, agents, related parties and third parties.

- Unquoted debt security pertains to a fixed rate callable amortizing green bond issued by the International Finance Corporation. Interest on bonds is payable semi-annually in arrears at an annual interest of 6.34%.

- Interest receivable pertains to accrued interest arising from investments in debt securities (classified under AFS and HTM categories), cash equivalents, term loans, housing loans, mortgage loans and other receivables.

- Housing loans pertain to long-term loans granted to employees at an annual interest of 8% payable semi-monthly with terms ranging from 5 to 20 years.

- Car financing loans pertain to car loans granted to employees at an annual interest of 6% payable semi-monthly and with terms ranging from 5 to 7 years.

- Mortgage loans pertain to housing loans granted to third parties and former employees with terms ranging from 10 to 15 years. Interest rates on these loans range from 7.5% to 9% in 2020 and from 7.5% to 10.5% in 2019.

- Due from agents pertains to advances by agents, unremitted collections, and charges for amendment/replacement of policies.

- Others include membership fee receivables and receivable from members.

Day 1 loss was recognized on loans with off-market interest rates. The nominal amount of these loans as of December 31 follows:

	2020	2019
Housing loans	**₱133,780,467**	₱143,890,551
Less: unamortized deferred interest income	**19,917,599**	22,256,851
	113,862,868	121,633,700
Car financing loans	**26,569,658**	31,486,109
Less: unamortized deferred interest income	**4,115,243**	5,687,163
	22,454,415	25,798,946
	₱136,317,283	₱147,432,646

The amortization of deferred interest income amounting to ₱4,401,327 and ₱4,967,323 in 2020 and 2019, respectively, is recognized as part of interest on loans and receivables included under "Investment income" in the statements of income (Note 17).

The reconciliation of changes in allowance for impairment on loans and receivables follows:

			2020		
	Accounts Receivable	**Mortgage loans**	**Due from agents**	**Others**	**Total**
Beginning balances	**₱5,148,724**	**₱104,264**	**₱1,398,086**	**₱7,458,645**	**₱14,109,719**
Provision, net of reversal	**17,827,156**	**63,814**	**791,063**	**8,538,904**	**27,220,937**
Ending balances	**₱22,975,880**	**₱168,078**	**₱2,189,149**	**₱15,997,549**	**₱41,330,656**

			2019		
	Accounts receivable	Mortgage loans	Due from agents	Others	Total
Beginning balances	₱5,010,429	₱85,507	₱1,328,683	₱4,903,346	₱11,327,965
Provision, net of reversal	138,295	18,757	69,403	2,555,299	2,781,754
Ending balances	₱5,148,724	₱104,264	₱1,398,086	₱7,458,645	₱14,109,719

The balances above were identified by the Group using the individual and collective impairment assessment.

8. Investment in Associates

This account consists of investments in the following entities, which are all incorporated and operating in the Philippines, as of December 31, 2020:

	Incorporation Date	Nature of Business
PPVI	December 9, 1975	Development and sale of real estate
MIIC	September 1, 1934	Provision of nonlife general insurance
UBP	August 16, 1968	Universal commercial banking

The movement of investments in associates follows:

	December 31, 2020			
	UBP	**MIIC**	**PPVI**	**Total**
Acquisition cost				
Beginning balance	**₱3,214,837,805**	**₱349,848,654**	**₱4,500,000**	**₱3,569,186,459**
Shares sold	**(4,378,474)**	**–**	**–**	**(4,378,474)**
Ending balance	**3,210,459,331**	**349,848,654**	**4,500,000**	**3,564,807,985**
Accumulated equity in net earnings				
Beginning balance	**12,249,901,156**	**127,893,365**	**(687,636)**	**12,377,106,885**
Equity in net earnings for the year	**1,882,019,233**	**336,090**	**(14,386)**	**1,882,340,937**
Dividends (Note 26)	**(695,667,147)**	**–**	**–**	**(695,667,147)**
Ending balance	**13,436,253,242**	**128,229,455**	**(702,022)**	**13,563,780,675**
Equity in reserve for fluctuation in AFS/FVOCI				
Beginning balance	**29,654,969**	**(17,246,688)**	**–**	**12,408,281**
Share in net movement of reserve for fluctuation in AFS/FVOCI financial assets of the associates during the year	**(6,253,617)**	**23,462,660**	**–**	**17,209,043**
Ending balance	**23,401,352**	**6,215,972**	**–**	**29,617,324**
Equity in reserve for re-measurement gains (losses) in defined benefit pension plan				
Beginning balance	**(74,901,306)**	**8,752,930**	**–**	**(66,148,376)**
Share in net movement of reserve for re-measurement gains on defined benefit plan	**(72,364,718)**	**(1,285,348)**	**–**	**(73,650,066)**
Ending balance	**(147,266,024)**	**7,467,582**	**–**	**(139,798,442)**
Premium on deemed disposal of investment in associate	**304,954,486**	**–**	**–**	**304,954,486**
	₱16,827,802,387	**₱491,761,663**	**₱3,797,978**	**₱17,323,362,028**

	December 31, 2019			
	UBP	MIIC	PPVI	Total
Acquisition cost				
Beginning balance	₱3,186,017,396	₱224,848,654	₱4,500,000	₱3,415,366,050
Capital infusion	–	125,000,000	–	125,000,000
Additional shares purchased	28,820,409	–	–	28,820,409
Ending balance	3,214,837,805	349,848,654	4,500,000	3,569,186,459
Accumulated equity in net earnings				
Beginning balance	10,337,003,239	137,919,335	(867,511)	10,474,055,063
Equity in net earnings for the year	2,289,618,882	(10,025,970)	179,875	2,279,772,787
Dividends (Note 26)	(376,720,965)	–	–	(376,720,965)
Ending balance	12,249,901,156	127,893,365	(687,636)	12,377,106,885

(Forward)

	December 31, 2019			
	UBP	MIIC	PPVI	Total
Equity in reserve for fluctuation in AFS/FVOCI				
Beginning balance	₱29,700,186	(₱37,813,096)	₱–	(₱8,112,910)
Share in net movement of reserve for fluctuation in AFS/FVOCI financial assets of the associates during the year	(45,217)	20,566,408	–	20,521,191
Ending balance	29,654,969	(17,246,688)	–	12,408,281
Equity in reserve for re-measurement gains (losses) in defined benefit pension plan				
Beginning balance	(10,640,260)	6,278,913	–	(4,361,347)
Share in net movement of reserve for re-measurement gains on defined benefit plan	(64,261,046)	2,474,017	–	(61,787,029)
Ending balance	(74,901,306)	8,752,930	–	(66,148,376)
Premium on deemed disposal of investment in associate	304,954,486	–	–	304,954,486
	₱15,724,447,110	₱469,248,261	₱3,812,364	₱16,197,507,735

The shares of stock of UBP are traded in the local stock market. The fair value of the Group's interest in the equity securities of UBP amounted to ₱14,271,097,528 (i.e., ₱71.90 per share) and ₱11,468,569,823 (i.e., ₱57.70 per share) as of December 31, 2020 and 2019, respectively.

On various dates in 2007, UBP issued a total number of 90,176,456 shares of stock to its equity holders. The Group did not subscribe for additional shares thereby reducing its interest in UBP from 18.74% to 16.11%. The reduction in interest in UBP deemed as disposal was accounted for using the entity concept method and recognized the deemed disposal of interest as an equity transaction. Thus, dilution gain arising from the deemed disposal of interest in UBP amounting to ₱304,954,486 was recognized as "Premium on deemed disposal of investment in an associate" in the members' equity section of the consolidated statements of financial position.

On September 29, 2018, UBP issued new shares through stock rights offering. The total number of shares issued was 158,805,583 shares with par value of ₱10.00 per share, issued at a price of ₱62.97 per share. The Group purchased 26,676,576 shares for ₱1,679,823,960, changing its percentage of interest in UBP from 16.21% in 2017 to 16.29% in 2018. On various dates in 2019, the Group purchased additional 487,850 shares for ₱28,820,409 increasing its interest in UBP from 16.29% in 2018 to 16.32% in 2019. On various dates in 2020, the Group sold 276,680 shares for ₱18,686,385 decreasing its interest in UBP from 16.32% in 2019 to 16.29% in 2020.

Financial position (amounts in thousands)

	December 31, 2020	
	UBP	**MIIC**
Financial assets	**₱726,602,077**	**₱2,786,402**
Property and equipment	**6,894,768**	**111,135**
Investment properties	**8,922,366**	**13,977**
Deferred tax asset	**5,643,858**	**20,282**
Other assets	**26,396,168**	**1,819,534**
Accounts payable	**–**	**(354,047)**
Other liabilities	**(669,306,835)**	**(2,767,691)**
Equity	**₱105,152,402**	**₱1,629,592**

	December 31, 2019	
	UBP	MIIC
Financial assets	₱724,948,002	₱2,571,730
Property and equipment	6,500,643	103,001
Investment properties	9,127,581	14,412
Deferred tax asset	5,643,858	41,833
Other assets	24,567,455	2,004,001
Accounts payable	–	(316,292)
Other liabilities	(672,770,574)	(2,876,116)
Equity	₱98,016,965	₱1,542,569

Financial performance (amounts in thousands)

	December 31, 2020	
	UBP	**MIIC**
Revenue	**₱38,577,694**	**₱925,415**
Direct costs	**(9,847,440)**	**(499,760)**
Operating expenses	**(21,373,153)**	**(429,575)**
Other income	**13,367,138**	**69,451**
Provision for credit losses	**(8,381,856)**	**-**
Profit before tax	**12,342,383**	**65,531**
Income tax expense	**(781,380)**	**(31,065)**
Net profit for the year	**₱11,561,003**	**₱34,466**
Group share in the net profit of the associate	**₱1,882,019**	**₱8,616**

	December 31, 2019	
	UBP	MIIC
Revenue	₱38,355,155	₱1,058,900
Direct costs	(16,019,470)	(704,520)
Operating expenses	(20,325,366)	(469,065)
Other income	14,345,032	149,053
Provision for credit losses	(1,857,347)	–
Profit before tax	14,498,004	34,368
Income tax expense	(494,494)	(91,656)
Net profit for the year	₱14,003,510	(₱57,288)
Group share in the net profit of the associate	₱2,289,619	(₱14,322)

The Group is allowed to continue to apply PAS 39 in accounting for financial instruments and is permitted to apply equity method of accounting based on the financial statements of associates that applied PFRS 9 as allowed under Amendments to PFRS 4.

Beginning January 1, 2018, UBP adopted PFRS 9 which introduces new requirements for classification and measurement, impairment and hedge accounting. Under PFRS 9, the classification of financial assets is based on an entity's business model for managing the financial assets; and whether the financial instrument's contractual cash flows represent "solely payments of principal and interests" or "SPPI" on the principal amount outstanding. The adoption of PFRS 9 also fundamentally changed the UBP's measurement of impairment losses for financial assets – from PAS 39's incurred loss approach to a forward-looking expected credit loss (ECL) approach. Under PFRS 9, entities are required to provide ECL for financial assets at AC, FVOCI and contract assets. The allowance is based on the ECLs associated with the risk of default in the next twelve months unless there has been a significant increase in credit risk since origination or the financial assets are impaired where lifetime ECL is provided. For trade receivables without significant financing component, the simplified approach is applied in calculating ECLs. Therefore, UBP no longer tracks changes in credit risk but instead recognizes an allowance based on lifetime ECL at each reporting period. Relevant forward-looking factors specific to the debtors and the economic environment are considered in developing the overlays in the ECL calculation.

UBP has commitments and contingent accounts amounting to ₱229.98 billion and ₱148.71 billion as of December 31, 2020 and 2019 respectively. These primarily pertain to guarantees and commitments to extend credit which are part of the regular operations of a bank, trust department accounts and forward and spot exchange transactions. UBP recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. PPVI and MIIC have no contingent liabilities or capital commitments as of December 31, 2020 and 2019. PPVI and MIIC are not subject to restrictions (i.e., whether through legal, contractual, or discretionary restrictions) as to the use or transfer of their assets or settlement of liabilities as of December 31, 2020 and 2019.

On March 25, 2019, MIIC's Board of Directors has approved the capital infusion in compliance to the new regulatory requirements to increase its net worth to ₱900 million by end of 2019. As approved by the Board of Directors of Insular Life, ₱125 million fund was remitted to MIIC.

MIIC is subject to statutory regulations on capital requirements (Note 32). MIIC submits annual financial statements to the IC to determine adequacy of the MIIC's investments. IC classifies assets according to admitted and non-admitted assets for the purpose of calculating financial ratios that MIIC is required to maintain. These, among others, may pose restrictions as to the use or transfer of assets, as well as, the settlement of liabilities as of December 31, 2020 and 2019.

BSP, UBP's lead regulator, sets and monitors the capital requirements of UBP. In implementing current capital requirements, the BSP requires UBP to maintain a minimum capital amount and a prescribed ratio of qualifying capital to risk-weighted assets, known as the "capital adequacy ratio". Risk-weighted assets is the aggregate value of assets weighted by credit risk, market risk, and operational risk, based on BSP-prescribed formula provided under its circulars. These, among others, may impose significant restrictions as to the use or transfer of assets or the settlement of liabilities as of December 31, 2020 and 2019.

9. **Investment Properties**

The movements in carrying amounts of investment properties follow:

	2020		
	Land	**Building and Improvements**	**Total**
Costs			
Beginning balances	**₱3,862,215,650**	**₱4,113,864,936**	**₱7,976,080,586**
Additions	**588,400**	**22,629,095**	**23,217,495**
Disposals	**(43,026,627)**	**(36,406,130)**	**(79,432,757)**
Reclassification (Note 10)	**(126,665,472)**	**(108,599,305)**	**(235,264,777)**
Ending balances	**3,693,111,951**	**3,991,488,596**	**7,684,600,547**

(Forward)

	2020		
	Land	**Building and Improvements**	**Total**
Accumulated Depreciation and Impairment Loss			
Beginning balances	**₱156,116,205**	**₱1,052,393,274**	**₱1,208,509,479**
Depreciation (Note 20)	**-**	**119,367,122**	**119,367,122**
Disposals	**-**	**(17,310,812)**	**(17,310,812)**
Reclassification (Note 10)	**-**	**(40,383,434)**	**(40,383,434)**
Ending balances	**156,116,205**	**1,114,066,150**	**1,270,182,355**
Net Book Values	**₱3,536,995,746**	**₱2,877,422,446**	**₱6,414,418,192**

	2019		
	Land	Building and Improvements	Total
Costs			
Beginning balances	₱3,951,189,229	₱3,912,966,456	₱7,864,155,685
Additions	156,000	267,546,968	267,702,968
Disposals	(108,886,477)	(77,387,367)	(186,273,844)
Reclassification (Note 10)	19,756,898	10,738,879	30,495,777
Ending balances	3,862,215,650	4,113,864,936	7,976,080,586
Accumulated Depreciation and Impairment Loss			
Beginning balances	156,116,205	990,266,774	1,146,382,979
Depreciation (Note 20)	–	123,536,389	123,536,389
Disposals	–	(57,153,824)	(57,153,824)
Reclassification (Note 10)	–	(4,256,065)	(4,256,065)
Ending balances	156,116,205	1,052,393,274	1,208,509,479
Net Book Values	₱3,706,099,445	₱3,061,471,662	₱6,767,571,107

The total fair value of the investment properties amounted to ₱8,128,897,313 and ₱10,533,948,526 as of December 31, 2020 and 2019, respectively, based on independent appraiser valuation.

The fair value hierarchy of the investment properties is under Level 3 category. The fair value of the investment properties was arrived at using the following approaches:

	Valuation Technique	**Significant Unobservable Inputs**
Land	Market Data approach	• Sales price • Location and proximity to important landmarks • Marketability and desirability
Building and Improvements	Cost approach	• Replacement cost or reproduction cost • Condition and economic life • Facilities and amenities

Market Data approach is a comparative approach that considers the sales of similar or substitute assets and other related market data. In general, an asset being valued is compared with similar items that have been transacted in the market or that are listed or offered for sale, with appropriate adjustment to reflect different properties or characteristics. Market data considered in the valuation includes location of the properties, size, shape and characteristics of the lot, desirability in the market and present and prospective use.

Cost approach is a comparative approach used to estimate the replacement cost or reproduction cost of the building and improvements, considering the prevailing market prices for material, labor, contractor's overhead, profit and other charges, less allowance for physical depreciation and obsolescence.

Highest and best use is defined as the most probable use of a property, which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the property being valued.

Movements in the significant unobservable inputs are positively correlated to the fair value of the properties subject to valuation.

The Group enters into operating leases for its investment properties (Note 27). Rental income amounted to ₱728,714,363 in 2020 and ₱740,863,514 in 2019 (Note 27). Direct expenses arising in respect of such investment properties amounted to ₱121,224,474 in 2020 and ₱167,468,944 in 2019 while indirect operating expenses amounted to ₱23,518,057 in 2020 and ₱22,033,907 in 2019 (Note 21).

Future minimum lease rentals receivable under non-cancellable operating leases are disclosed in Note 27.

10. Property and Equipment

The movement in carrying amount of property and equipment follows:

	2020						
	Land and Buildings	**Furniture Fixtures and Equipment**	**Electronic and Data Processing Equipment**	**Transportation Equipment**	**Building Improvements**	**Right of Use Asset**	**Total**
Costs							
Beginning balances	**₱2,135,651,871**	**₱226,280,400**	**₱329,310,632**	**₱93,524,799**	**₱106,654,507**	**₱59,705,398**	**₱2,951,127,607**
Additions	**9,511,476**	**7,453,492**	**44,433,775**	**6,750,332**	**3,459,781**	**15,603,285**	**87,212,141**
Reclassification (Note 9)	**235,264,777**	**21,729**	**486,116**	**(686,108)**	**(21,729)**	**-**	**235,064,785**
Retirements/disposals	**(28,861,050)**	**(12,090,848)**	**(92,398,319)**	**(12,974,931)**	**(217,550)**	**-**	**(146,542,698)**
Ending balances	**2,351,567,074**	**221,664,773**	**281,832,204**	**86,614,092**	**109,875,009**	**75,308,683**	**3,126,861,835**
Accumulated Depreciation and Amortization							
Beginning balances	**573,993,647**	**104,857,683**	**215,417,534**	**53,803,388**	**88,498,213**	**25,138,062**	**1,061,708,527**
Depreciation and amortization (Note 20)	**52,402,315**	**12,235,630**	**36,165,552**	**15,845,602**	**3,393,069**	**26,649,937**	**146,692,105**
Retirements/disposals	**(8,075,463)**	**(11,246,438)**	**(91,673,949)**	**(10,090,571)**	**(217,550)**	**-**	**(121,303,971)**
Reclassification (Note 9)	**40,383,434**	**396,621**	**(368,638)**	**(17,366)**	**(21,728)**	**-**	**40,372,323**
Ending balances	**658,703,933**	**106,243,496**	**159,540,499**	**59,541,053**	**91,652,004**	**51,787,999**	**1,127,468,984**
Net Book Values	**₱1,692,863,141**	**₱115,421,277**	**₱122,291,705**	**₱27,073,039**	**₱18,223,005**	**₱23,520,684**	**₱1,999,392,851**

	2019						
	Land and Buildings	Furniture Fixtures and Equipment	Electronic and Data Processing Equipment	Transportation Equipment	Building Improvements	Right of Use Asset	Total
Costs							
Beginning balances, as previously reported	₱2,290,606,596	₱205,737,572	₱265,917,544	₱94,301,520	₱97,178,590	₱–	₱2,953,741,822
Effect of adoption of PFRS 16	–	–	–	–	–	24,154,759	24,154,759
Beginning balances, as restated	2,290,606,596	205,737,572	265,917,544	94,301,520	97,178,590	24,154,759	2,977,896,581
Additions	35,712,557	21,589,253	65,693,274	15,786,616	9,475,917	35,550,639	183,808,256
Reclassification (Note 9)	(19,756,898)	–	–	–	(10,738,879)		(30,495,777)
Retirements/disposals	(170,910,384)	(1,046,427)	(2,300,186)	(16,563,337)	10,738,879	–	(180,081,455)
Ending balances	2,135,651,871	226,280,398	329,310,632	93,524,799	106,654,507	59,705,398	2,951,127,605
Accumulated Depreciation and Amortization							
Beginning balances	547,713,463	92,088,065	182,037,694	45,555,806	83,010,648	–	950,405,676
Depreciation and amortization (Note 20)	47,491,566	13,354,911	34,262,023	17,898,746	3,185,209	25,138,062	141,330,517
Retirements/disposals	(21,211,383)	(585,293)	(882,183)	(9,651,164)	(1,953,709)	–	(34,283,732)
Reclassification (Note 9)	–	–	–	–	4,256,065	–	4,256,065
Ending balances	573,993,646	104,857,683	215,417,534	53,803,388	88,498,213	25,138,062	1,061,708,526
Net Book Values	₱1,561,658,225	₱121,422,715	₱113,893,098	₱39,721,411	₱18,156,294	₱34,567,336	₱1,889,419,079

The cost of fully depreciated property and equipment that are still in use in the Group's operations amounted to ₱241,523,438 and ₱298,024,162 as of December 31, 2020 and 2019, respectively.

11. Other Assets

	2020	2019
Prepaid expenses (Note 26)	**₱954,629,454**	₱974,663,179
Computer software	**37,679,681**	43,340,051
Others	**50,467,250**	65,867,738
	₱1,042,776,385	₱1,083,870,968

Computer Software

The movements in the carrying amount of computer software follow:

	2020	2019
Cost		
Beginning balance	**₱288,193,853**	₱255,287,603
Additions	**10,185,678**	32,906,250
Retirements	**(133,932,129)**	–
Ending balance	**164,447,402**	288,193,853
Accumulated Amortization		
Beginning balance	**244,853,802**	225,456,440
Amortization (Note 20)	**13,653,773**	19,397,362
Retirements	**(131,739,854)**	–
Ending balance	**126,767,721**	244,853,802
Net Book Value	**₱37,679,681**	₱43,340,051

Others

Others include prepaid taxes and other current assets.

12. Legal Policy Reserves

	December 31, 2020		
	Legal policy reserves	**Reinsurers' share of liabilities**	**Net**
Aggregate reserves for:			
Ordinary life policies	**₱65,235,715,723**	**₱76,319,978**	**₱65,159,395,745**
Group life policies	**2,798,313,318**	**5,505,503**	**2,792,807,815**
Unit-linked policies	**1,427,839,083**	**58,528,318**	**1,369,310,765**
Accident and health policies	**35,586,470**	**495,998**	**35,090,472**
	₱69,497,454,594	**₱140,849,797**	**₱69,356,604,797**

	December 31, 2019		
	Legal policy reserves	Reinsurers' share of liabilities	Net
Aggregate reserves for:			
Ordinary life policies	₱54,612,665,288	₱77,777,371	₱54,534,887,917
Group life policies	2,638,615,828	11,671,521	2,626,944,307
Unit-linked policies	1,011,193,341	52,895,212	958,298,129
Accident and health policies	42,040,763	526,009	41,514,754
	₱58,304,515,220	₱142,870,113	₱58,161,645,107

Movement of insurance contract liabilities is as follows:

	December 31	
	2020	2019
Beginning balance	**₱58,161,645,107**	₱54,375,294,579
Re-measurement gains on reserves recognized in OCI, net of reinsurers' share (gross of consequential deferred income tax impact)	**13,440,269,922**	5,248,000,062
Increase (decrease) in reserves recognized in profit or loss, net of reinsurers' share (Note 19)	**(2,245,310,232)**	(1,461,649,534)
Ending balance	**₱69,356,604,797**	₱58,161,645,107

As discussed under Note 2, legal policy reserves reflect the statutory reserves calculated based on the Gross Premium Valuation method.

13. **Other Insurance Liabilities**

	2020	2019
Members' deposits and other funds on deposit		
Subscriptions to variable unit-linked funds	**₱31,463,347,970**	₱30,475,995,661
Reserve for dividends to members	**4,858,455,735**	5,012,372,958
Advances from policyholders	**574,957,783**	567,358,887
Claims pending settlement	**3,428,215,578**	2,284,854,422
	₱40,324,977,066	₱38,340,581,928

Claims pending settlement pertains to approved but unpaid claims. This account also includes incurred but not reported (IBNR) claims that already occurred but notice had not been received by the Company and which is based on a reasonable estimate of unreported claims based on Company's historical experience. The IBNR amounted to ₱394,265,659 and ₱237,131,505 in 2020 and 2019, respectively.

The liabilities are not subjected to covenants and warranties.

14. **Accrued Expenses and Other Liabilities**

	2020	2019
Accounts payable	**₱856,207,925**	₱882,932,238
Accrued employee benefits	**449,597,935**	452,076,693
Commissions payable	**156,810,683**	122,486,515
Taxes payable	**104,388,790**	94,111,517
Remittances not yet allocated	**201,431,290**	73,134,857
General expenses due and accrued	**11,240,621**	37,503,396
Lease liability	**25,097,392**	32,719,753
Others	**23,333,544**	15,352,247
	₱1,828,108,180	₱1,710,317,216

The classes of other liabilities of the Group follow:

- Accounts payable pertain to amounts due to contractors and suppliers.

- Accrued employee benefits pertain to various unpaid short term employee benefits such as vacation leave, sick leave, service awards, and other benefits offered by the Group to its employees.

- Remittances not yet allocated pertain to new business deposits with pending underwriting requirements and collections from policyholders unapplied to their corresponding receivable set-up as of reporting date.

15. **Members' Equity**

On November 28, 2019, the Board of Trustees appropriated ₱350,000,000 out of its retained earnings as of December 31, 2019, in compliance with increased minimum member's equity of ₱900,000,000 as required under IC CL No. 2017-14, *Minimum Members' Equity Requirements for Mutual Companies*, as amended by IC CL No. 2019-67, and Amended Insurance Code which is valid until December 31, 2021.

On November 4, 2020, the Board of Trustees appropriated ₱600,000,000 out of its retained earnings as of December 31, 2020, in compliance with the minimum total member's equity for December 31, 2022 as required by IC CL No. 2017-14, as amended by IC CL No. 2019-67. See Note 30 for the schedule of minimum total member's equity as required by the IC.

16. **Insurance Revenue**

	2020	2019
VUL insurance contracts	**₱7,559,968,972**	₱9,286,360,935
Life insurance contracts	**2,940,237,556**	3,618,840,612
Accident and health contracts	**864,746,931**	751,892,129
Gross earned premiums on insurance contracts	**11,364,953,459**	13,657,093,676
Reinsurers' share of premiums on insurance contracts	**(698,081,803)**	(157,076,994)
	₱10,666,871,656	₱13,500,016,682

17. **Investment Income**

	2020	2019
Interest income on:		
AFS financial assets	**₱2,646,859,398**	₱1,094,654,701
Loans and receivables	**1,004,467,045**	1,155,642,939
HTM financial assets	**15,863,585**	1,524,366,346
Others	**310,643**	854,970
Dividend income	**317,472,657**	1,144,859,661
Trading gains (losses) from financial assets at FVPL	**89,675,130**	309,764,463
	₱4,074,648,458	₱5,230,143,080

18. **Net Realized Gains on Sale of Financial Assets and Real Properties**

	2020	2019
Net realized gains		
AFS financial assets	**₱184,670,725**	₱350,347,175
Investment properties	**73,692,311**	36,703,874
Repossessed real properties	**478,329**	311,598
	₱258,841,365	₱387,362,647

19. **Insurance Benefits Expenses**

	2020	2019
VUL funds allocation	**₱5,669,246,460**	₱6,908,006,944
Maturities	**3,910,084,499**	4,393,005,002
Death and hospitalization benefits	**1,970,383,549**	1,662,658,437
Surrenders	**652,092,874**	769,679,586
Interest on policy and contract funds	**295,214,037**	304,259,568
Dividends paid to policyholders	**152,298,476**	194,561,066
Increase/(decrease) in dividend liability to policyholders	**1,227,312**	(31,855,584)
Others	**176,056,450**	186,780,690
Total gross benefits and claims on insurance contracts	**12,826,603,657**	14,387,095,709
Reinsurers' share of benefits and claims on insurance contracts	**(141,679,727)**	(68,562,651)
Net change in (Note 12):		
Legal policy reserves	**(2,247,330,549)**	(1,444,391,492)
Reinsurers' share in legal policy reserves	**2,020,317**	(17,258,042)
	₱10,439,613,698	₱12,856,883,524

Details of net change in legal policy reserves follows:

	2020		
	Gross Change In Legal Policy Reserves	**Reinsurers' Share of Change in Legal Policy Reserves**	**Net**
Life insurance contracts	**(₱2,324,431,870)**	**(₱7,653,423)**	**(₱2,316,778,447)**
VUL insurance contracts	**77,101,321**	**5,633,106**	**71,468,215**
	(₱2,247,330,549)	**(₱2,020,317)**	**(₱2,245,310,232)**

	2019		
	Gross Change In Legal Policy Reserves	Reinsurers' Share of Change in Legal Policy Reserves	Net
Life insurance contracts	(₱1,742,410,199)	₱2,563,312	(₱1,744,973,511)
VUL insurance contracts	298,018,707	14,694,730	283,323,977
	(₱1,444,391,492)	₱17,258,042	(₱1,461,649,534)

Changes presented above pertain to changes due to impact of assumptions and portfolio movements. Any impact of change in discount rates is not reflected in profit or loss but included in other comprehensive income.

20. General Insurance Expenses

	2020	2019
Personnel (Notes 23 and 24)	**₱1,403,797,073**	₱1,295,806,794
Depreciation and amortization (Notes 9, 10, and 11)	**282,082,543**	284,264,268
Marketing, advertising, and promotion	**127,473,780**	301,814,319
Outside services	**121,440,844**	169,301,647
Repairs and maintenance	**100,685,666**	87,255,551
Transportation and communication	**58,101,627**	69,724,196
Taxes and licenses	**24,415,535**	28,437,284
Printing and supplies	**18,693,476**	25,227,180
Utilities	**8,611,860**	11,547,385
Training	**3,329,516**	15,032,379
Others	**156,381,097**	48,420,270
	₱2,305,013,017	₱2,336,831,273

"Others" pertain to bank charges, and miscellaneous fees and expenses incurred by the Group.

21. Investment Expenses

	2020	2019
Real estate expenses (Note 9)	**₱144,742,531**	₱189,502,851
Investment management expenses	**5,547,575**	5,476,161
	₱150,290,106	₱194,979,012

"Real estate expenses" pertains to building administration fees, real estate taxes and other expenses incurred by the Group related to its properties held for lease.

"Investment management expenses" includes interest expense from lease liability amounting to ₱1,743,538 and ₱2,227,608 in 2020 and 2019, respectively (Note 27). This also includes commissions paid to securities brokers.

22. Other Losses

	2020	2019
Impairment loss on AFS equity securities (Note 7)	**₱236,000,000**	₱140,268,919
Foreign exchange loss	**177,386,782**	177,571,837
	₱413,386,782	₱317,840,756

23. **Personnel Expenses**

	2020	2019
Salaries and bonuses	**₱1,012,004,670**	₱1,040,146,658
Employee benefits	**149,751,136**	159,771,839
Retirement benefits expense (Note 24)	**242,041,267**	95,888,297
	₱1,403,797,073	₱1,295,806,794

24. **Retirement Benefits**

The Group accrues the provision for retirement benefits covering all of its regular employees based on the Group's retirement plan that is compliant with the provision of Republic Act (RA) No. 7641. The benefits are based on the years of service and compensation of the employees.

The retirement plan of the Parent Company is administered by its BOT consisting of its key officers. The Parent Company's BOT has the following major responsibilities as provided in the declaration of trust:

1) Control and administration of the retirement plan for the accomplishment of the purpose for which the Fund is intended in accordance with the plan; and

2) Receive and hold title to and ownership of the fund to be held in trust for the best interest of the parties affected thereby in accordance with and for all the uses and purposes as stated in the plan and in the declaration of trust (with all the powers and duties as stated in the declaration of trust).

The subsidiaries' retirement funds are administered by UBP under the supervision of the BOT of the respective plans. The BOT of the subsidiaries' plans is responsible for the investment strategy of the plans.

The tables below summarize the components of retirement benefits cost recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated statements of financial position for the retirement plans.

a. Retirement benefits expenses recognized in the consolidated statements of income follow:

	2020	2019
Current service cost	**₱93,867,070**	₱96,251,981
Past service cost/(credit)	**145,040,733**	–
Net interest income	**3,133,464**	(363,684)
Retirement benefits expense	**₱242,041,267**	₱95,888,297

b. Net retirement benefits asset (liability) recognized in the consolidated statements of financial position follow:

	2020	2019
Fair value of net plan assets	**₱1,486,549,471**	(₱1,358,896,658)
Present value of defined benefit obligation	**(1,567,471,378)**	1,276,581,796)
Retirement benefits (asset) liability	**(₱80,921,907)**	₱82,314,862

The net retirement benefit asset (liability) as presented in the consolidated statements of financial position follow:

	2020			
	Parent Company	**IIC**	**I-Care**	**Total**
Net retirement benefit asset	**₱–**	**₱1,022,180**	**₱–**	**₱1,022,180**
Net retirement benefit liability	**(72,280,133)**	**–**	**(9,663,953)**	**(81,944,086)**
	(₱72,280,133)	**₱1,022,180**	**(₱9,663,953)**	**(₱80,921,906)**

	2019			
	Parent Company	IIC	I-Care	Total
Net retirement benefit asset	₱87,439,925	₱1,029,451	₱–	₱88,469,376
Net retirement benefit liability	–	–	(6,154,514)	(6,154,514)
	₱87,439,925	₱1,029,451	(₱6,154,514)	₱82,314,862

c. Movements in the net retirement benefits (assets) liabilities recognized in the consolidated statements of financial position follow:

	2020	2019
Beginning balance	**₱82,314,862**	₱136,248,083
Retirement benefits expense	**(242,041,267)**	(95,888,297)
Actual contributions	**113,302,722**	86,948,935
Remeasurements recognized in OCI (gross of consequential deferred income tax impact)	**(34,498,223)**	(44,993,859)
Ending balance	**(₱80,921,906)**	₱82,314,862

d. Changes in the present value of defined benefit obligation follow:

	2020	2019
Beginning balance	**₱1,276,581,796**	₱1,085,964,724
Current service cost	**93,859,799**	96,251,981
Interest cost on defined benefit obligation	**67,970,272**	116,851,433
Benefits paid	**(94,326,323)**	(104,132,004)
Re-measurements on:		
Actuarial losses (gains) arising from changes in financial assumptions	**6,626,681**	189,142,886
Actuarial losses arising from changes in demographic assumptions	**29,927,687**	10,012,112
Actuarial losses (gains) arising from experience adjustments	**41,790,733**	(117,509,336)
Past service cost	**145,040,733**	
Ending balance	**₱1,567,471,378**	₱1,276,581,796

e. Changes in the fair value of plan assets follow:

	2020	2019
Beginning balance	**₱1,358,896,658**	₱1,222,212,807
Actual contributions	**113,302,722**	86,948,935
Interest income	**64,836,808**	117,215,117
Actuarial losses excluding amount recognized in net interest cost	**43,839,606**	39,069,134
Benefits paid	**(94,326,323)**	(106,549,335)
Ending balance	**₱1,486,549,471**	₱1,358,896,658

The major categories of plan assets (before deducting the related liabilities) as a percentage of fair value of plan assets of the Parent Company as of December 31 are as follows:

	December 31, 2020	**Percentage**	December 31, 2019	Percentage
Cash and cash equivalents	**₱97,333,307**	**7%**	₱83,170,127	6%
Short term investments	**343,665,530**	**23%**	4,893,750	0%
Receivables	**9,834,896**	**1%**	10,999,546	1%
Equity securities:				
Electricity, energy, power and water	**69,598,380**	**5%**	77,951,280	6%
Food, beverage, and tobacco	**65,928,300**	**4%**	47,404,000	4%
Others	**10,764,468**	**1%**	9,980,000	1%
	597,124,881	**40%**	234,398,703	18%
Debt securities:				
Government	**747,617,458**	**50%**	895,813,558	66%
Private	**143,300,554**	**10%**	218,385,799	16%
	890,918,012	**60%**	1,114,199,357	82%
Fair value of plan assets	**₱1,488,042,893**	**100%**	₱1,348,598,060	100%

**Excluding liabilities amounting to ₱1,493,422and ₱872,005 for 2020 and 2019, respectively.*

All equity and debt securities held have quoted prices in an active market. The plan assets have significant concentration on the sovereign debt of the Philippines.

The Group's BOT reviews the level of funding of the Group's pension plan annually. The said review includes, among others, asset-liability matching (ALM) and investment strategy. The principal objective of the Group's ALM is to ensure the expected return on plan assets to be sufficient to support the desired level of funding arising from the projected maturity profile of the defined benefit plans. The BOT decides to gear towards investing in fixed income securities based on a matrix of allowable types of investments maintained by the Group. For fixed income instruments, government securities with tenors of one to three years and more than three years may account for up to 30% and 80% of the portfolio, respectively, while treasury bills can consist of up to 10%. Corporate issues with maturities of five years and less and those more than five years may comprise up to 15% and 10% of the portfolio, respectively. Investments in equities are allowed up to 20%, and cash and cash equivalents can reach up to 10% of the portfolio, except in certain circumstances as approved by the BOT.

The latest actuarial valuation of the plan is as of December 31, 2020. The principal actuarial assumptions used to determine retirement benefits costs follow:

	2020	2019
Discount rate*	**3.82% - 3.90%**	4.91% - 4.96%
Future salary increases	**4.00% - 5.00%**	4.00% - 6.00%

**This is single weighted average discount rate which is based on BVAL reference rates at various tenors as of December 29, 2020 and of December 27, 2019, respectively. Rates for intermediate durations were interpolated.*

The Group contributed ₱113,302,722 to its defined benefit plan in 2020 and expects to contribute ₱337,514,708 to its defined benefit plan in 2021.

The discount rate and salary increase rate were identified as significant actuarial assumptions. The sensitivity analysis below has been determined based on methods that extrapolate the impact in the Group's defined benefit obligation as of December 31 as a result of reasonably possible changes in each significant assumption, assuming all other assumptions were held constant. The below amounts disclosed shows the defined benefit obligation balance as of December 31 depending on the changes in the assumptions:

	Group	
	2020	2019
Discount rate:		
Increase of 1%	**₱1,432,164,789**	₱1,190,128,976
Decrease of 1%	**1,737,127,317**	1,377,800,779
Salary increase rate:		
Increase of 1%	**1,741,904,323**	1,377,803,513
Decrease of 1%	**1,425,345,706**	1,188,366,460

Shown below is the maturity analysis of the undiscounted benefit payments as of:

	Group	
	2020	2019
Less than 1 year	**₱87,234,764**	₱64,392,760
1 year to less than 5 years	**526,578,929**	470,949,809
5 years to less than 10 years	**772,071,914**	601,895,044
10 years to less than 15 years	**754,827,184**	704,153,556
15 years to less than 20 years	**756,281,228**	729,435,348
20 years and above	**2,370,382,301**	2,204,112,902
	₱5,267,376,320	₱4,774,939,419

The range of the average duration of the defined benefit obligation at the end of the reporting period is 17.36 years to 19.96 years and 18.35 to 19.91 years in 2020 and 2019, respectively.

25. **Income Taxes**

a. The components of provision for income tax follow:

	2020	2019
Current		
RCIT/MCIT	**₱99,470,495**	₱586,653,832
Final	**540,602,488**	–
	₱640,072,983	₱586,653,832
Deferred	**(79,673,264)**	(88,024,185)
	₱560,399,719	₱498,629,647

b. The components of the Group's net deferred income tax assets (liabilities) follow:

	2020			
		Provision for (benefit) from income tax		
	Beginning of Year	**Charged to Income**	**Charged to OCI**	**End of Year**
Deferred income tax assets:				
Loss (Gain) on re-measurement on life insurance reserves	**(₱458,223,994)**	**₱2,592,535**	**₱4,032,080,977**	**₱3,576,449,518**
Retirement benefit liability (asset)	**(24,694,456)**	**36,029,028**	**10,349,467**	**21,684,039**
Unrealized foreign exchange difference	**267,548,989**	**4,834,650**	**–**	**272,383,639**
Accrued expenses not yet deductible	**137,392,437**	**23,242,530**	**–**	**160,634,967**
Unamortized past service cost contributions	**72,738,853**	**(11,660,301)**	**–**	**61,078,552**
Allowance for impairment on loans and receivables	**4,218,896**	**8,169,858**	**–**	**12,388,754**
Impairment of investment properties and property and equipment	**6,843,543**	**–**	**–**	**6,843,543**
	5,824,268	**63,208,300**	**4,042,430,444**	**4,111,463,012**
Deferred income tax liabilities:				
Revaluation increment in investment properties	**(998,840,324)**	**8,552,333**	**–**	**(990,287,991)**
Reserve for fluctuation in AFS financial assets	**(16,353,312)**	**–**	**(2,681,323)**	**(19,034,635)**
Accrued rent income	**(25,676,129)**	**7,912,631**	**-**	**(17,763,498)**
	(1,040,869,765)	**16,464,964**	**(2,681,323)**	**(1,027,086,124)**
Net deferred income tax asset (liability)	**(₱1,035,045,497)**	**₱79,673,264**	**₱4,039,749,121**	**₱3,084,376,888**

	2019			
		Provision for (benefit) from income tax		
	Beginning of Year	Charged to profit or loss	Charged to OCI	End of Year
Deferred income tax assets:				
Unrealized foreign exchange difference	₱170,510,305	₱97,038,684	₱–	₱267,548,989
Accrued expenses not yet deductible	145,021,545	(7,629,108)	–	137,392,437
Unamortized past service cost contributions	85,788,341	(13,049,488)	–	72,738,853
Allowance for impairment on loans and receivables	3,061,728	1,157,168	–	4,218,896
Impairment of investment properties and property and equipment	6,843,543	–	–	6,843,543
	411,225,462	77,517,256	–	488,742,718

(Forward)

	2019			
		Provision for (benefit) from income tax		
	Beginning of Year	Charged to profit or loss	Charged to OCI	End of Year
Deferred income tax liabilities:				
Gain on re-measurement on life insurance reserves	(₱2,032,624,014)	₱–	₱1,574,400,020	(₱458,223,994)
Revaluation increment in investment properties	(1,004,636,414)	5,796,090	–	(998,840,324)
Retirement benefits asset	(40,874,425)	2,678,257	13,501,712	(24,694,456)
Reserve for fluctuation in AFS financial assets	(9,661,606)	–	(6,691,706)	(16,353,312)
Accrued rent income	(27,708,714)	2,032,585	–	(25,676,129)
	(3,115,505,173)	10,506,932	1,581,210,026	(1,523,788,215)
Net deferred income tax asset (liability)	(₱2,704,279,711)	₱88,024,188	₱1,581,210,026	(₱1,035,045,497)

The net deferred tax asset and net deferred tax liability as presented in the consolidated statements of financial position follow:

	2020			
	Parent Company	**IIC**	**I-Care**	**Total**
Net deferred tax asset	**₱3,048,741,452**	**₱–**	**₱35,897,255**	**₱3,084,638,707**
Net deferred tax liability	**–**	**(261,819)**	**-**	**(261,819)**
	₱3,048,741,452	**(₱261,819)**	**₱35,897,255**	**₱3,084,376,888**

	2019			
	Parent Company	IIC	I-Care	Total
Net deferred tax asset	₱–	₱–	₱31,318,073	₱31,318,073
Net deferred tax liability	(1,066,072,916)	(290,654)	–	(1,066,363,570)
	(₱1,066,072,916)	(₱290,654)	₱31,318,073	(₱1,035,045,497)

c. Deferred income tax assets were not recognized on the following items since it is not expected that sufficient future taxable profits will be available against which these items can be utilized prior to their expiration:

	2020	2019
NOLCO	**₱3,148,792,792**	₱2,244,189,182
Excess of MCIT over RCIT	**53,242,709**	80,180,731
	₱3,202,035,501	₱2,324,369,913

d. The Group's NOLCO available for deduction from future taxable income follows:

Pursuant to Revenue Regulations No. 25-2020, implementing Section 4(bbb) of Republic Act No. 11494 or the Bayanihan to Recover as One Act, the NOLCO incurred in 2020 amounting to ₱907,052,243 can be carried over as deduction from gross income for the next five consecutive taxable years from the year it was incurred.

The NOLCO incurred in 2019 and prior years that can be carried over as a deduction from for the next three consecutive taxable years from the year incurred follows:

Year Incurred	Expiration	January 1, 2020	Incurred	Applied	Expired	December 31, 2020
2017	2020	₱2,265,929	–	–	(₱2,265,929)	–
2018	2021	1,780,350,937	–	(90,414)	–	1,780,260,523
2019	2022	461,572,316	–	(92,290)	–	461,480,026
		₱2,244,189,182	₱–	₱182704	(₱2,265,929)	₱2,241,740,549

e. The Group's unused excess of MCIT over RCIT follows:

Year Incurred	Expiration	January 1, 2020	Incurred	Applied	Expired	December 31, 2020
2017	2020	₱48,364,556	₱–	(₱48,354,054)	(₱10,502)	₱
2018	2021	705,256	–	–	–	705,256
2019	2022	31,110,919	–	–	–	31,110,919
2020	2023	–	21,426,540	–	–	21,426,540
		₱80,180,731	₱21,426,540	(₱48,354,054)	(₱10,502)	₱53,242,715

f. The reconciliation of the provision for income tax at the statutory income tax rates to the provision for income tax shown in the statements of income is shown below.

	2020	2019
Provision for income tax at statutory income tax rates	**₱1,110,007,045**	₱1,605,613,676
Adjustments for:		
Equity in net earnings of an associate	**(564,702,281)**	(683,931,836)
Interests subjected to final tax at lower tax rates and dividends/interest exempt from tax	**(1,086,949,703)**	(691,518,377)
Movement in NOLCO and excess MCIT over RCIT without deferred income tax asset set up	**293,631,838**	169,725,835
Nontaxable income	**(122,577,494)**	(152,645,531)
Final tax and CWTs closed to expense	**536,732,721**	-
Nondeductible expenses	**394,257,593**	251,385,880
Provision for income tax	**₱560,399,719**	₱498,629,647

26. **Related Party Transactions**

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Group, including holding companies and subsidiaries , are related parties of the Group. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Group and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.

Transactions and balances between the Parent Company and the subsidiaries have been eliminated in the consolidation.

Transactions with related parties consist mainly of:

a. Lease of office spaces, cash advances, dividends, interests, and loans. The balances as of and for the years ended December 31, 2020 and 2019 are presented below:

			Outstanding Balance			
Category	Year	Amount of transaction during the year	Due From	Due to	Cash and investment Accounts	Terms and condition
Subsidiaries*						
Common Overhead	**2020**	**₱25,622,201**	**₱2,286,505**	**₱–**	**₱–**	30-day; noninterest-bearing; settled in cash;
	2019	15,918,328	15,918,328	–	–	
Rental Income	**2020**	**9,876,070**	**1,746,266**	**6,654**	**–**	One to three-year lease contract; 30-day; noninterest-bearing; settled in cash; unsecured, unguaranteed, no impairment
	2019	9,194,005	108,101	2,435	–	
Rental deposits	**2020**	**330,815**	**2,500**	**5,165,050**	**–**	noninterest-bearing; settled in cash; unguaranteed; unsecured; no impairment
	2019	374,849	2,500	4,834,235	–	
Dividends	**2020**	**1,150,000**	**–**	**–**	**–**	noninterest-bearing; settled in cash; unguaranteed; unsecured; no impairment
	2019	1,150,000	–	–	–	
Proceeds received from ILPHI subsidiary upon liquidation	**2020**	**14, 187,182**	**–**	**–**	**–**	
	2019	–	–	–	–	
Insurance revenue	**2020**	**4,733,763**	**–**	**–**	**–**	
	2019	2,187,347	–	–	–	
Salaries and compensation	**2020**	**425,154**	**–**	**–**	**–**	Paid to Key Management Personnel
	2019	584,537	584,537	–	–	
Association dues, utilities and others	**2020**	**2,991,642**	**859,696**	**3,082**	**–**	noninterest-bearing; settled in cash; unsecured
	2019	3,120,791	609,307	44,861	–	
Insular Foudation						
Common Overhead	**2020**	**812,295**	**–**	**–**	**–**	30-day; noninterest-bearing; settled in cash;
	2019	–	–	–	–	
Rental Income	**2020**	**86,291**	**–**	**–**	**–**	One to three-year lease contract; 30-day; noninterest-bearing; settled in cash; unsecured, unguaranteed, no impairment
	2019	–	–	–	–	
Rental deposits	**2020**	**40,834**	**–**	**40,834**	**–**	noninterest-bearing; settled in cash; unguaranteed; unsecured; no impairment
	2019	–	–	–	–	
Insurance revenue	**2020**	**6,100,000**	**–**	**–**	**–**	
	2019	–	–	–	–	
Salaries and compensation	**2020**	**3,653,673**	**–**	**–**	**–**	Paid to Key Management Personnel
	2019	–	–	–	–	
Association dues, utilities and others	**2020**	**1,249,440**	**–**	**–**	**–**	noninterest-bearing; settled in cash; unsecured
	2019	506,233	–	–	–	
Donations	**2020**	**51,238,291**	–	–	–	
	2019	–	–	–	–	
Associates						
PPVI						
Advances	**2020**	**–**	**6,000,000**	**–**	**–**	
	2019	–	6,000,000	–	–	

(Forward)

Category	Year	Amount of transaction during the year	Outstanding Balance: Due From	Due to	Cash and investment Accounts	Terms and condition
MIIC						
Rental Income	**2020**	**₱740,908**	**₱434,838**	**₱–**	**₱–**	Two to five-year lease contract; 30-day; noninterest-bearing; unsecured; unguaranteed; settled in cash; no impairment
	2019	1,793,691	–	86,958	–	
Rental Deposits	**2020**	**–**	**–**	**2,783,881**	**–**	noninterest-bearing; settled in cash; unguaranteed; unsecured; no impairment
	2019	243,353	–	2,783,881	–	
Insurance Revenue	**2020**	**13,165,575**	**–**	**–**	**–**	
	2019	17,766,894	–	–	–	
Insurance Expense	**2020**	**1,035,641**	–	**294,524**	–	
	2019	1,125,780	–	420,959	–	
Association dues, utilities and others	**2020**	**133,767**	**382,866**	**–**	**–**	
	2019	467,575	301,811	–	–	
UBP						
Service Fee	**2020**	**136,932,014**	**–**	**21,199,421**	**–**	noninterest-bearing; unsecured; unguaranteed; settled in cash
	2019	165,803,567	–	11,670,902	–	
Access Fee, net of amortization during the year	**2020**	**22,030,787**	**–**	**–**	**862,920,843**	noninterest bearing; settled in cash
	2019	35,132,012	–	–	884,951,630	
Bancassurance Distribution Expense	**2020**	**13,719,035**	**–**	**4,877,322**	**–**	noninterest bearing; settled in cash; unguaranteed; unsecured; no impairment
	2019	41,979,380	–	7,757,148	–	
Rental Income	**2020**	**26,896,530**	**3,934,951**	**–**	**–**	One to five-year lease contract; 30-day; noninterest-bearing; unsecured; unguaranteed; settled in cash; no impairment
	2019	24,281,892	5,090	–	–	
Rental Deposits	**2020**	**117,206**	**–**	**15,520,864**	**–**	noninterest-bearing; settled in cash; unguaranteed; unsecured; no impairment
	2019	143,557	–	16,887,734	–	
Dividends	**2020**	**695,667,147**	**–**	**–**	**–**	noninterest-bearing; settled in cash; unguaranteed; unsecured; no impairment
	2019	376,720,965	–	–	–	
Director’s fees	**2020**	**59,272,599**	**–**	**–**	**–**	
	2019	30,225,433	–	–	–	
Insurance Revenue	**2020**	**284,539,354**	**–**	**–**	**–**	
	2019	257,286,373	–	–	–	
Interest income	**2020**	**35,920,904**	**1,295,000**	**–**	**–**	
	2019	50,118,434	2,961,828	–	–	
Saving and current accounts	**2020**	**(985,481,948)**	**–**	**–**	**654,612,151**	Savings accounts are interest bearing while current accounts are noninterest-bearing; settled in cash; unguaranteed; unsecured, no impairment
	2019	480,198,130	–	–	1,640,094,098	
AFS Financial Assets	**2020**	–	–	–	**300,000,000**	
	2019	–	–	–	300,000,000	interest-bearing, unguaranteed; unsecured; unrestricted
Association Dues, utilities and others	**2020**	**3,148,146**	**257,553**	**–**	**–**	
	2019	3,481,625	175,867	–	–	
Retirement plan						
Advances	**2020**	**107,138,767**	**–**	**–**	**–**	Benefit payments to employees advanced by the Company
	2019	98,598,777	–	–	–	
Fixed Rate Bond	**2020**	**–**	**–**	**–**	**50,000,000**	UBP’s fixed rate bond with interest of 5.25% per annum; payable quarterly; ten-year bond; unguaranteed; unsecured
	2019	–	–	–	50,000,000	
TOTAL	**2020**	**₱537,474,083**	**₱17,200,175**	**₱49,891,632**	**₱1,867,532,994**	
TOTAL	2019	₱1,618,403,528	₱26,667,369	₱44,489,113	₱2,875,045,728	

**The Parent Company’s subsidiaries are disclosed in Note 28. Transactions with subsidiaries are eliminated upon consolidation.*

b. In November 2014, the Group invested in the subordinated notes issued by UBP and was classified as HTM financial assets. In 2019, the Group reclassified this investment to AFS financial assets (see Note 7.2). In February 2020, this investment was fully redeemed when UBP exercised its call option by way of voluntary redemption.

   This investment earned interests amounting to ₱2,194,792 and ₱16,125,000 in 2020 and 2019, respectively. The carrying value and fair value of this subordinated note amounted to ₱300,000,000 in 2019.

   In February 2020, the Group invested again in another subordinated notes issued by UBP and was classified as AFS financial assets for the same face value of ₱300,000,000. As of December 31, 2020, the carrying value of this subordinated note is ₱295,396,086.

   This investment earned interests amounting to ₱13,431,250 in 2020.

c. Key management personnel include all officers that have ranks of vice president and up. Compensation of key management personnel is summarized below:

	2020	2019
Salaries and other short-term employee benefits	**₱320,397,995**	₱314,324,612
Post-employment and other long-term benefits	**32,005,310**	15,773,087
	₱352,403,305	₱330,097,699

27. Lease Commitments

The Group has entered into noncancelable leases with terms ranging between one month and fifteen years, both as lessee and as lessor. Most leases include a clause to enable upward revision of the rental charge on an annual basis based on contract.

a. Group as lessee

   The Company has lease contracts for its branches and offices. Leases of its branches and offices generally have lease terms between 1 and 5 years. Generally, the Company is restricted from assigning and subleasing the leased assets. There are several lease contracts that include extension and termination options and variable lease payments.

   The following are the amounts recognized in statement of income:

	2020	2019
Depreciation expense of right-of-use assets included in property and equipment	**₱26,649,937**	₱25,138,062
Interest expense on lease liabilities (Note 21)	**1,743,538**	2,227,608
Total amount recognized in statement of income	**₱28,393,475**	₱27,365,670

The rollforward analysis of lease liabilities follows:

	2020	2019
Beginning balance	**₱32,719,753**	₱22,916,463
Additions	**15,893,103**	35,300,065
Interest expense	**1,743,538**	2,227,608
Payments	**(25,259,002)**	(27,724,383)
Ending balance	**₱25,097,392**	₱32,719,753

Shown below is the maturity analysis of the undiscounted lease payments:

	2020	2019
1 year	**₱11,859,013**	₱17,896,707
more than 1 year to 2 years	**5,221,121**	8,119,536
more than 2 years to 3 years	**3,990,113**	3,993,652
more than 3 years to 4 years	**2,253,078**	3,048,637
more than 5 years	**1,954,011**	2,679,097
	₱25,277,336	₱35,737,629

b. Operating lease commitments - the Group as lessor

The future minimum rentals receivable under non-cancelable operating leases follows:

	2020	2019
Within one year	**₱393,184,309**	₱547,376,448
After one year but not more than five years	**299,735,101**	608,100,158
	₱692,919,410	₱1,155,476,606

Rent income recognized in 2020 and 2019 amounted to ₱728,714,363 and ₱740,863,514, respectively. The lease terms of the Company's non-cancelable operating leases range from 6 months to 12 years.

28. Group Information

The Group comprises the Parent Company and its subsidiaries. Among the Group's subsidiaries, IIC and ILMADECO are intermediate parents of their respective subsidiaries. IPI and IPVI are wholly-owned subsidiaries of IIC; while, ILACGA is a wholly-owned subsidiary of ILMADECO.

The Parent Company's subsidiaries are all incorporated and based in Philippines (i.e., principal place of business). The Parent Company's subsidiaries are engaged in the following activities:

Subsidiaries	**Date of Incorporation**	**Nature of Business**
IIC	September 5, 1989	Investment banking in the areas of corporate finance, money market, and securities underwriting
• IPI	May 31, 1994	Development and sale of real estate
• IPVI	May 31, 1994	*-do-*
I-Care	October 14, 1991	Provision of medical and managed care services and facilities to its members
ILMADECO	March 9, 1987	Holding organization of ILACGA
• ILACGA	November 11, 2003	Provision of nonlife general insurance

For the relevant corporate information of the Group's associates, refer to Note 8.

The Parent Company is subject to statutory regulations on Risk-Based Capital (RBC2) and other externally imposed capital requirements (Note 32). All asset investments of the Parent Company require approval from the IC. The Parent Company submits annual financial statements to the IC to determine adequacy of the Parent Company's investments. IC classifies assets according to admitted and non-admitted assets for the purpose of calculating financial ratios that the Parent Company is required to maintain. These, among others, pose restrictions as to the use or transfer of assets within the Group, as well as, the settlement of liabilities as of December 31, 2020 and 2019.

The Parent Company is not subject (i.e., under guarantyship, suretyship, or other similar arrangements) to any contingent liability, or capital or purchase commitments as of December 31, 2020 and 2019.

The subsidiaries, except I-Care, have no contingent liabilities or capital commitments as of December 31, 2020 and 2019 and are not subject to restrictions (i.e., whether through legal, contractual, or discretionary restrictions) as to the use or transfer of their assets within the Group, or settlement of liabilities.

IC, I-Care's lead regulator, sets and monitors the capital requirements of I-Care. In implementing current capital requirements, the IC requires I-Care to maintain a minimum capital amount, minimum deposit to IC, minimum net worth, prescribed acid test ratio and a prescribed ratio of qualifying capital to gross membership fees. These, among others, may impose significant restrictions as to the use or transfer of assets or the settlement of liabilities as of December 31, 2020 and 2019.

While IIC is subject to the minimum capital requirements imposed by SEC, the compliance with the said regulation does not pose significant restrictions as the use or transfer of assets within the Group or the settlement of liabilities as of December 31, 2020 and 2019.

On March 8, 2018, the BOD approved, and the stockholders of the respective entities confirmed and ratified to shorten the term of IIC, IPI, IPVI and ILPHI's corporate life from the date of incorporation until December 31, 2019. On February 13, 2019, the BOD approved, and the stockholders confirmed and ratified, to extend the intended end date of corporate life of IIC, IPI, IPVI, and ILPHI from December 31, 2019 to March 31, 2020 to consider the necessary regulatory process and approval.

With the completion of ILPHI's closure upon the receipt of its certificate of no outstanding tax liability from BIR last November 5, 2020 , the BOD then approved and adopted the resolution for the closure of its current bank account on December 3, 2020. The balance of ILPHI's current account amounting to ₱14,187,182 was transferred to the Company on December 14, 2020.

29. **Other Income**

Other income includes management fees, amendment fees, cancellation fees, handling fees and guarantee fees.

30. **Fair Value Measurement**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

The following are short term in nature; hence, the carrying value approximates the fair value:
- Cash and cash equivalents;
- Short term investments;
- Insurance receivable;
- Loans and receivable under "Financial assets" account including:
  - Policy loans;
  - Accounts receivable;
  - Interest receivable;
  - Due from agents; and
  - Other receivables;
- Other insurance liabilities; and
- Accrued expenses and other liabilities excluding taxes and other statutory liabilities.

Equity Securities
The fair values of equity securities are based on closing prices as published by the PSE. Fair value of the unquoted equity security was valued using various valuation techniques.

Investment in Unit Investment Trust Fund (UITF)
Fair values of Investment in UITF are based on Net Asset Value per unit released by the counterparty based on the performance of the fund.

Debt Securities
The fair values of debt securities are based on quoted prices. For unquoted debt securities, where fair value is not reasonably determinable, fair values are estimated using the discounted cash flow technique that makes use of market rates.

Structured VULs
The fair value of structured notes has been computed by counterparties using present value calculations and option pricing models as applicable. The valuation requires management to make certain assumptions about the model inputs particularly the credit spread of the issuer.

Term, Mortgage, Housing and Car Financing Loans
For disclosure purposes, fair values of these loans are estimated using the discounted cash flow technique that makes use of the Group's incremental lending rates for similar types of instruments.

Legal Policy Reserves
The carrying amounts of legal policy reserves reflect the statutory reserves.

The following tables show analysis of financial instruments at fair value by level of the fair value hierarchy as of December 31:

	2020				
		Fair Value			
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets at FVPL					
Equity securities - quoted	**₱3,393,768,696**	**₱3,393,768,696**	**₱–**	**₱–**	**₱3,393,768,696**
Under separate funds*:					
Traditional VULs					
Equity securities - quoted	**20,736,532,042**	**20,736,532,042**	**–**	**–**	**20,736,532,042**
Debt securities – quoted					
Government:					
Local currency	**2,668,455,377**	**1,232,871,094**	**1,435,584,283**	**–**	**2,668,455,377**
Foreign currency	**2,650,582,154**	**2,650,582,154**	**–**	**–**	**2,650,582,154**
Corporate:					
Local currency	**480,323,984**	**480,323,984**	**–**	**–**	**480,323,984**
Foreign currency	**214,621,990**	**214,621,990**	**–**	**–**	**214,621,990**
Investment in UITF					
Local currency	**2,192,060,254**	**–**	**2,192,060,254**	**–**	**2,192,060,254**
Foreign currency	**296,213,353**	**–**	**296,213,353**	**–**	**296,213,353**
Structured VULs					
Local currency	**455,041,000**	**–**	**–**	**455,041,000**	**455,041,000**
Foreign currency	**707,525,980**	**–**	**–**	**707,525,980**	**707,525,980**
	33,795,124,830	**28,708,699,960**	**3,923,857,890**	**1,162,566,980**	**33,795,124,830**
AFS Financial Assets					
Equity securities:					
Quoted	**10,716,229,670**	**10,716,229,670**	**–**	**–**	**10,716,229,670**
Unquoted**	**376,675,022**	**–**	**–**	**19,024,806**	**19,024,806**
Debt securities – quoted					
Government:					
Local currency	**33,571,331,606**	**3,151,068,216**	**30,420,263,390**	**–**	**33,571,331,606**
Foreign currency	**1,202,189,063**	**1,202,189,063**	**–**	**–**	**1,202,189,063**
Corporate:					
Local currency	**16,938,450,480**	**16,643,054,394**	**295,396,086**	**–**	**16,938,450,480**
Foreign currency	**588,082,935**	**588,082,935**	**–**	**–**	**588,082,935**
	63,392,958,776	**32,300,624,278**	**30,715,659,476**	**19,024,806**	**63,035,308,560**
HTM Financial Assets					
Government:					
Local currency	**389,868,005**	**367,146,892**	**–**	**–**	**367,146,892**
Foreign currency	**–**	**–**	**–**	**–**	**–**
Corporate:					
Local currency	**40,000,000**	**40,504,472**	**–**	**–**	**40,504,472**
	429,868,005	**407,651,364**	**–**	**–**	**407,651,364**
Loans and receivables					
Term loans	**4,474,750,000**	**–**	**–**	**5,023,531,136**	**5,023,531,136**
Unquoted debt security	**862,080,000**	**–**	**–**	**1,141,511,966**	**1,141,511,966**
Housing loans	**113,862,868**	**–**	**–**	**151,241,591**	**151,241,591**
Car financing loans	**22,454,415**	**–**	**–**	**21,822,038**	**21,822,038**
	5,473,147,283	**–**	**–**	**6,338,106,731**	**6,338,106,731**
TOTAL FINANCIAL ASSETS	**₱103,091,098,894**	**₱61,416,975,602**	**₱34,639,517,366**	**₱7,519,698,517**	**₱103,576,191,485**

**Excluding cash and cash equivalents, other receivables and other payables with carrying amount of ₱2,468,026,878, ₱153,746,033 and ₱110,554,837, respectively.*
***Excluding club and equity shares carried at cost*

	2019				
		Fair Value			
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets at FVPL					
Equity securities - quoted	₱3,659,508,970	₱3,659,508,970	₱–	₱–	₱3,659,508,970
Under separate funds*:					
Traditional VULs					
Equity securities - quoted	20,733,063,330	20,733,063,330	–	–	20,733,063,330
Debt securities – quoted					
Government:					
Local currency	2,106,180,801	781,932,405	1,324,248,396	–	2,106,180,801
Foreign currency	2,630,487,080	2,630,487,080	–	–	2,630,487,080
Corporate:					
Local currency	193,232,143	193,232,143	–	–	193,232,143
Foreign currency	93,019,027	93,019,027	–	–	93,019,027
Investment in UITF	1,652,317,273	–	1,652,317,273	–	1,652,317,273
Structured VULs					
Local currency	444,592,500	–	–	444,592,500	444,592,500
Foreign currency	1,005,243,490	–	–	1,005,243,490	1,005,243,490
	32,517,644,614	28,091,242,955	2,976,565,669	1,449,835,990	32,517,644,614

(Forward)

	2019				
			Fair Value		
	Carrying Value	Level 1	Level 2	Level 3	Total
AFS Financial Assets					
Equity securities:					
Quoted	₱14,198,628,935	₱14,198,628,935	₱–	₱–	₱14,198,628,935
Unquoted**	377,323,542	–	–	19,673,328	19,673,328
Debt securities – quoted					
Government:					
Local currency	30,044,520,511	4,310,173,011	25,734,347,500	–	30,044,520,511
Foreign currency	1,186,945,810	1,186,945,810	–	–	1,186,945,810
Corporate:					
Local currency	16,056,960,678	16,056,960,678	–	–	16,056,960,678
Foreign currency	354,833,876	354,833,876	–	–	354,833,876
	62,219,213,352	36,107,542,310	25,734,347,500	19,673,328	61,861,563,138
HTM Financial Assets					
Government:					
Local currency	160,069,276	151,679,445	–	–	151,679,445
Foreign currency	–	–	–	–	–
Corporate:					
Local currency	40,000,000	39,856,872	–	–	39,856,872
	200,069,276	191,536,317	–	–	191,536,317
Loans and receivables					
Term loans	5,986,976,471	–	–	6,347,352,311	6,347,352,311
Unquoted debt security	931,040,000	–	–	1,098,262,564	1,098,262,564
Housing loans	121,633,700	–	–	115,672,819	115,672,819
Car financing loans	25,798,946	–	–	30,016,586	30,016,586
	7,065,449,117	–	–	7,591,304,280	7,591,304,280
TOTAL FINANCIAL ASSETS	₱102,002,376,359	₱64,390,321,582	₱28,710,913,169	₱9,060,813,598	₱102,162,048,349

**Excluding cash and cash equivalents, other receivables and other payables with carrying amount of ₱2,807,880,285, ₱161,149,666 and ₱85,005,796, respectively.*
***Excluding club and equity shares carried at cost*

The following table shows the reconciliation of the beginning and ending balances of Level 3 AFS financial assets and financial assets at FVPL which are recorded at fair value as of December 31:

	2020	2019
Financial assets at FVPL:		
Peso		
Beginning balance	**₱444,592,500**	₱698,526,102
Maturity	**-**	(384,200,325)
Fair value gain(loss)	**10,448,500**	130,266,723
Ending balance	**455,041,000**	444,592,500
USD		
Beginning balance	**1,005,243,490**	1,300,125,154
Maturity	**(155,079,259)**	(297,983,105)
Fair value gain	**(98,315,049)**	46,598,230
Foreign exchange adjustments	**(44,323,201)**	(43,496,789)
Ending balance	**707,525,981**	1,005,243,490
Total Level 3 financial assets at FVPL	**₱1,162,566,981**	₱1,449,835,990
AFS financial assets:		
Beginning balance	**₱19,673,328**	₱16,249,694
Fair value gain (loss)	**(648,522)**	3,423,634
Ending balance	**₱19,024,806**	₱19,673,328

In 2020 and 2019, no transfers were made among the three levels in the fair value hierarchy.

Investment in a holding company

The Group has investments in a holding company's (the "investee-holding company") shares of stock included in available-for-sale investments which are not quoted in the market as of December 31, 2020 and 2019. The investee-holding company was valued using adjusted net asset method in 2020 and 2019 since majority of its net assets are carried at fair value. The carrying value of the investment in a holding company amounted to ₱19,024,806 and ₱19,673,328 as of December 31, 2020 and 2019, respectively. Increases (decreases) in the net book value per share would result in a higher (lower) fair value measurement.

Structured VULs

Fair value of structured notes has been computed by counterparties using present value calculations and option pricing models as applicable. The management performs an independent testing to validate the reasonableness of counterparty values. The sensitivity analysis requires management to make certain assumptions about the model inputs particularly the credit spread of the issuer. Market observable inputs used in the sensitivity analysis include credit default swap (CDS) of the Republic of the Philippines, USD interest rate swap rates (IRS) (for the USD denominated issuances) and USD/PHP cross currency swap rates (for the PHP-denominated issuances).

The sensitivity analysis of the fair market value of the structured notes as of December 31 is performed for the reasonable possible movement in the significant inputs with all other variables held constant, showing the impact to profit and loss in the table below:

	Significant observable input other than quoted prices included within Level 1	Range level at yearend	Sensitivity of the input to fair value
2020	**ROP CDS level (4yrs-8yrs)**	**36 basis points**	**50 basis points increase or decrease in ROP CDS would result in the decrease and increase in market value of the note by ₱3,430,162 and ₱3,473,248, respectively.**
	USD IRS (4yrs-8yrs)	**42-64 basis points**	**50 basis points increase or decrease in USD IRS would result in the decrease and increase in market value of the note by ₱3,430,162 and ₱3,473,248, respectively.**
	PHP IRS (1yr-7yrs)	**278-338 basis points**	**50 basis points increase or decrease in PHP IRS would result in the decrease and increase in market value of the note by ₱365,653 and ₱367,805, respectively.**
2019	ROP CDS level (3yrs-8yrs)	34 basis points	50 basis points increase or decrease in ROP CDS would result in the decrease and increase in market value of the note by ₱7,316,467 and ₱7,429,115, respectively.
	USD IRS (3yrs-8yrs)	171-178 basis points	50 basis points increase or decrease in USD IRS would result in the decrease and increase in market value of the note by ₱7,316,467 and ₱7,429,115, respectively.
	PHP IRS (1yr-6yrs)	345-350 basis points	50 basis points increase or decrease in PHP IRS would result in the decrease and increase in market value of the note by ₱2,608,528 and ₱2,638,252, respectively.

Note: The structured VULs can be decomposed into bond components and option components. The sensitivity is only applied to the bond portion of the structured notes. Further, the results of the sensitivity do not reflect stressed scenarios due to the non-linearity characteristics of the product.

Sensitivity of the fair value measurement to changes in unobservable inputs follows:

Peso denominated notes:

	Significant unobservable input	Range level at yearend	Sensitivity of the input to fair value
2020	**Bank CDS Level (1-7 years)**	**42-52 basis points**	**A 50 basis points increase (decrease) in CDS would result in the decrease and increase in fair value of the note by ₱365,653 and ₱367,805, respectively.**
2019	Bank CDS Level (1-7 years)	37- 47 basis points	A 50 basis points increase (decrease) in CDS would result in the decrease and increase in fair value of the note by ₱2,608,528 and ₱2,638,252, respectively.

Note: The structured VULs can be decomposed into bond components and option components. The sensitivity is only applied to the bond portion of the structured notes. Further, the results of the sensitivity do not reflect stressed scenarios due to the non-linearity characteristics of the product.

Dollar-denominated notes:

	Significant unobservable input	Range level at yearend	Sensitivity of the input to fair value
2020	**ROP CDS Level (4-8 years)**	**23-33 basis points**	**50 basis points increase or decrease in ROP CDS would result in the decrease and increase in market value of the note by ₱3,430,162 and ₱3,473,248, respectively.**
2019	ROP CDS Level **(3-8 years)**	21-41 basis points	50 basis points increase or decrease in ROP CDS would result in the decrease and increase in market value of the note by ₱7,316,467 and ₱7,429,115, respectively.

Note: The sensitivity is only applied to the bond portion of the structured notes. Further, the results of the sensitivity do not reflect stressed scenarios due to the non-linearity characteristics of the product.

The Bank CDS level is based on the closest available CDS maturity of the counterparty matched to the remaining maturity of the structured notes. Further, the Bank CDS, is a proxy for the funding cost of the counterparty which is considered as a significant unobservable input.

The above estimates are based on assumptions that, if altered, can change the analysis expressed herein. This shall not constitute a representation or warranty as to future performance of the structured notes. Further, past performance is not indicative of future results.

There is no other impact on the Group's equity other than those already affecting profit or loss.

Fair value disclosure under the Amendments to PFRS 4

The table below presents an analysis of the fair value of classes of financial assets of the Group as of December 31, 2020, as well as the corresponding change in fair value for the year then ended. The financial assets are divided into two categories:

- Assets for which their contractual cash flows represent solely payments of principal and interest (SPPI), excluding any financial assets that are held for trading or that are managed and whose performance is evaluated on a fair value basis; and

- All financial assets other than those specified in SPPI above (i.e. those for which contractual cash flows do not represent SPPI, assets that are held for trading and assets that are managed and whose performance is evaluated on a fair value basis).

	2020			
	SPPI financial assets		**Other financial assets**	
	Fair value	**Fair value change**	**Fair value**	**Fair value change**
Financial assets at FVPL				
Equity securities - quoted	**₱–**	**₱–**	**₱3,393,768,696**	**₱94,209,726**
Under separate fund:				
Traditional VULs:				
Cash and cash equivalents	–	–	**2,468,026,878**	–
Equity securities	–	–	**20,736,532,042**	**(1,799,399,846)**
Investment in UITF	–	–	**2,488,273,607**	**87,114,955**
Debt securities	–	–	**6,013,983,505**	**38,763,497**
Other receivables	–	–	**153,746,033**	–
Other payables	–	–	**(110,554,837)**	–
Structured VULs	–	–	**1,162,566,981**	**(132,189,751)**
Available-for-sale financial assets				
Equity securities	**2,698,019**	**(379,251)**	**11,090,206,672**	**(828,085,718)**
Debt securities	**52,300,054,085**	**3,174,427,817**	–	–
Loans and receivables				
Cash and cash equivalents*	**5,083,425,862**	–	–	–
Term loans	**5,023,531,136**	–	–	–
Unquoted debt securities	**1,141,511,966**	–	–	–
Housing loans	**151,241,591**	–	–	–
Car financing loans	**21,822,038**	–	–	–
Others	**7,675,844,318**	–	–	–
	₱71,400,129,015v	**₱3,174,048,566**	**₱47,396,549,577**	**(₱2,539,587,137)**

**excludes cash on hand*

	2019			
	SPPI financial assets		Other financial assets	
	Fair value	Fair value change	Fair value	Fair value change
Financial assets at FVPL				
Equity securities - quoted	₱–	₱–	₱3,659,508,970	₱162,968,169
Under separate fund:				
Traditional VULs:				
Cash and cash equivalents	–	–	2,807,880,285	–
Equity securities	–	–	20,733,063,330	410,304,403
Investment in UITF	–	–	1,652,317,273	169,880,164
Debt securities	–	–	5,022,919,051	335,849,173
Other receivables	–	–	161,149,666	–
Other payables	–	–	(85,005,796)	–
Structured VULs	–	–	1,449,835,990	133,368,165
Available-for-sale financial assets				
Equity securities	–	–	14,218,302,263	(4,055,368,894)
Debt securities	47,643,260,875	6,983,387,674	–	–
Loans and receivables				
Cash and cash equivalents*	4,592,328,007	–	–	–
Short-term investments	47,596,900	–	–	–
Term loans	6,347,352,311	(301,672,428)	–	–
Unquoted debt securities	1,098,262,564	163,627,297	–	–
Housing loans	115,672,819	(5,449,976)	–	–
Car financing loans	30,016,586	(4,101,863)	–	–
Others	7,437,751,967	(154,486,348)	–	–
	₱67,312,242,029	₱6,681,304,356	₱49,619,971,032	(₱2,842,998,820)

**excludes cash on hand*

All financial assets under VULs are managed on a fair value basis. Accordingly, these are all presented under "Other financial assets" in the above table.

For disclosures related to credit quality of SPPI financial assets, refer to Note 31.

31. Insurance and Financial Risk Management

The primary objective of the Group's risk and financial management framework is to protect the Group's policyholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognizes the critical importance of having efficient and effective risk management systems in place.

The Group has established a risk management function with clear terms of reference from the BOT, its committees, and the associated executive management committees. This is supplemented with a clear organizational structure with documented delegated authorities and responsibilities from the BOT to executive management committees and senior managers. Lastly, a group policy framework which sets out the risk profiles for the Group, risk management, control, and business conduct standards for the Group's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Group.

The BOT approves the Group risk management policies and meets regularly to approve any commercial, regulatory, and organizational requirements of such policies. These policies define the Group's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

Regulatory Framework

A substantial portion of the Group's long term insurance business comprises policies where the investment risk is borne by policyholders. Risk attributable to policyholders is actively managed keeping in view their investment objectives and constraints. IC, the Group's leading regulator, is interested in protecting the rights of the policyholders and maintains close vigil to ensure that the Group is satisfactorily managing its affairs for their benefit. At the same time, the IC is also interested in ensuring that the Group maintains an appropriate solvency position to meet liabilities arising from claims and that the risks are at acceptable levels.

The operations of the Group are also subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions, e.g., capital adequacy, to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise.

31.1. Insurance Risk

The risk under an insurance contract is the possibility of occurrence of an insured event and uncertainty of the amount and timing of the resulting claim. The principal risk the Group faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. The risks associated with the life insurance contracts are underwriting risk and investment risk.

31.1.1. *Underwriting risk*

Underwriting risk represents the exposure to loss resulting from actual policy experience adversely deviating from assumptions made in the product pricing. Underwriting risks are brought about by a combination of the following:

- Mortality risk - risk of loss arising due to policyholder death experience being different than expected; and
- Morbidity risk - risk of loss arising due to policyholder health experience being different than expected.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategies and guidelines.

The business of the Group primarily comprises life insurance contracts. For contracts where death is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle, and natural disasters, thus resulting in earlier or more claims than expected.

These risks currently do not vary significantly in relation to the location of the risk insured by the Group while undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

There are no mitigating terms and conditions that reduce the insured risk accepted for contracts with fixed and guaranteed benefits and fixed future premiums.

The Group has an objective to control and minimize insurance risk and to reduce volatility of operating profits. The Group manages insurance risk through the following mechanism:

- the use and maintenance of management information systems that provide up to date, accurate and reliable data on risk exposure at any point in time;
- actuarial models based on past experience and statistical techniques aid in pricing decisions and monitoring claims patterns;

- guidelines are issued for concluding insurance contracts and assuming insurance risks;
- pro-active claims handling procedures are followed to investigate and adjust claims, thereby preventing settlement of dubious or fraudulent claims;
- reinsurance is used to limit the Group's exposure to large claims by placing risk with reinsurers providing high security;
- diversification is accomplished by achieving sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well diversified in terms of type and amount of risk, industry and geography; and
- the mix of insurance assets is driven by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the expected pattern of claim payments with the maturity dates of assets.

Insurance risk is also affected by the policyholders' rights to terminate the contract, pay reduced premiums, refuse to pay premiums, or avail of the guaranteed annuity option. Thus, the resultant insurance risk is subject to the policyholders' behavior and decisions.

The Group's concentration of insurance risk before and after reinsurance in relation to the type of insurance contract based on sum assured is as follows:

	2020	2019
Whole Life		
Gross	**₱86,249,890,903**	₱88,037,335,023
Net	**77,525,778,652**	78,853,622,225
Endowment		
Gross	**19,583,566,875**	21,994,043,540
Net	**17,635,606,631**	19,795,182,179
Term Insurance		
Gross	**5,099,657,415**	5,774,578,959
Net	**5,006,750,893**	5,675,771,211
Group Insurance		
Gross	**131,790,053,843**	130,736,667,508
Net	**105,896,644,315**	100,217,550,107
Variable Life		
Gross	**115,208,616,392**	108,800,266,504
Net	**82,570,932,404**	52,345,734,901
Total		
Gross	**₱357,931,785,428**	₱355,342,891,534
Net	**₱288,635,712,895**	₱256,887,860,623

31.1.2. Life Insurance Contracts

a. Assumptions

Material judgment is required in determining the liabilities and in the choice of assumptions relating to insurance contracts. Assumptions in use are based on past experience, current internal data and conditions, and external market indices and benchmarks, which reflect current observable market prices and other published information. Such assumptions are determined as appropriate at inception of the contract. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations. Assumptions are subject to the provisions of the Code and guidelines set forth by the IC.

b. *Terms*
Life insurance contracts offered by the Group mainly include whole life, endowments, term insurance, group insurance, and variable insurance.

Whole life and term insurance are conventional products where lump sum benefits are payable upon death of insured.

Endowment products are investments/savings products where lump sum benefits are payable after a fixed period or upon death before the period is completed.

Group insurance policies are yearly renewable life plan products issued to corporate accounts that provide the beneficiaries of the insured employee cash proceeds in the event of the employee's death.

Variable life products provide, in addition to life insurance coverage, living benefit where payments are linked to units of an investment fund set up by the Company from the premiums paid by the policyholders.

For legal policy reserves, the following assumptions are used:

a. Mortality and morbidity rates
Assumptions on mortality and morbidity are based on the Group's actual experience. Rates are differentiated by age, underwriting class and product type. For life insurance policies, increased mortality rates would lead to larger number of claims and claims occurring sooner than anticipated, increasing the expenditure and reducing profits for stakeholders.

b. Discount rates
Discount rates relate to the time value of money. These are based on the risk-free discount rates prescribed by IC. An increase (decrease) in discount rate would result in decrease (increase) in liability that needs to be set up to meet obligations to policyholders.

c. Expenses
Operating expense assumptions reflect the projected costs of maintaining and servicing in force policies and associated overhead expenses. The current level of expense is adjusted for inflation in the future. An increase in the level of expense would result in an increase in expenditure thereby reducing profits for the stakeholders.

d. Lapses rates
Assumptions on lapse are based on the Group's actual experience. These are differentiated by product type, annual premium level and duration of the policy. Higher lapse rates on lapse-supported products would translate to a decrease in the reserves that needs to be set-up.

c. *Sensitivities*
The application of the MfAD in the assumptions ensure that the resulting legal policy reserves will be sufficient. The scenarios tested involved increasing and decreasing one type of assumption by the recommended minimum MfAD while retaining the others constant at the original base run results.

31.1.3. Reinsurance Contracts

a. Terms and Assumptions

The Group limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the business ceded is placed on excess share basis with retention limits varying by issue age and underwriting classification.

Even though the Group may have reinsurance arrangements, it is not relieved of its direct obligation to its policyholders. Thus, a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The Group is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any reinsurance contract.

31.2. Financial Risk

The Group is exposed to financial risk through its financial assets, financial liabilities, insurance assets, and insurance liabilities. In particular, the key financial risk that the Group is exposed to is that proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk, and market risk.

These risks arise from open positions in interest rate, currency, and equity products, all of which are exposed to general and specific market movements.

The Group has guidelines and procedures on fixed and equity investments. On fixed investments, the Group has to place its investment portfolio in negotiable instruments that will give high-yield, low-risks return without sacrificing the IC and the Group's requirements. The IC requirements state that the investment in fixed instruments shall only come from financial institutions or corporate entities with acceptable ratings from PhilRatings, or at least the rank is within the top 15, in case of banks. Meanwhile, investment in negotiable instruments involving reserve and surplus investments shall follow the guidelines set by the Code (Note 32). On equity investments, the Group has to place its investment portfolio in equity market that will give high-yield, low-risks return taking into account the IC and Group's requirements.

31.2.1. *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Key areas where the Group is exposed to credit risk pertain to the amounts due from the following:

- Reinsurers in respect of unpaid claims;
- Reinsurers in respect of claims already paid;
- Financial assets at FVPL;
- AFS financial assets;
- Loans and receivables;
- HTM financial assets.

Risk Concentrations of the Maximum Exposure to Credit Risk

The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved by the Division Heads.

The following table analyses the Group's concentration of credit risk in the Group's debt securities portfolio by industrial distribution as percentage of total debt securities:

	2020	2019
Property	**30%**	35%
Holding firms	**22%**	25%
Electricity, energy, power, and water	**16%**	16%
Financial institutions	**12%**	11%
Food, beverage, and tobacco	**7%**	1%
Telecommunications	**6%**	8%
Tollways operation and maintenance	**4%**	3%
Others	**3%**	1%
Total	**100%**	100%

The Group has a significant concentration of credit risk with counterparties under the "Property" industry as of December 31, 2020 and 2019. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract.

Reinsurance is placed with high rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews. At each year-end, management performs assessment of creditworthiness of reinsurers to update reinsurance purchase strategies and ascertain a suitable allowance for impairment of reinsurance assets.

Individual operating units maintain records of the payment history for significant contract holders with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Group. Internal audit makes regular reviews to assess the degree of compliance with the Group procedures on credit. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency.

The Group manages the level of credit risk it accepts through a comprehensive group credit risk policy setting out the assessment and determination of what constitutes credit risk for the Group; setting up of exposure limits by each counterparty or group of counterparties, industry segments; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collateral and guarantees; reporting of credit risk exposures and breaches to the monitoring authority; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment.

Loans to policyholders, which are granted at amount not to exceed the policyholder's cash surrender value, are netted off against the cash surrender values of policies and carry substantially no credit risk.

In respect of investment securities, the Group secures satisfactory credit quality by setting maximum limits of portfolio securities with a single issuer or group of issuers and setting the minimum ratings for each issuer or group of issuers.

The Group sets the maximum amounts and limits that may be advanced to/placed with individual corporate counterparties which are set by reference to their long term ratings.

Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties. Commissions due to intermediaries are netted off against amounts receivable from them to reduce the risk of doubtful debts. The credit risk in respect of customer balances, incurred on nonpayment of premiums or contributions, will only persist during the grace period specified in the policy document or trust deed on the expiry of which the policy is either paid up or terminated.

The maximum credit exposure of the financial assets of the Company is equal to their carrying value except for mortgage loans and housing loans with collaterals. The financial effect of collaterals for mortgage and housing loans is equal to their carrying amount, hence, the maximum credit exposure is nil as of December 31, 2020 and 2019.

Financial effect is the lower of the carrying value of the financial asset or the fair value of the collateral for each financial asset.

The Group uses a credit rating concept based on the borrowers' and counterparties' overall creditworthiness, as follows:

i. Investment grade - rating given to borrowers and counterparties who possess strong to very strong capacity to meet their obligations.
ii. Non-investment grade - rating given to borrowers and counterparties who possess above average capacity to meet their obligations.

The tables below provide the credit quality of the Group's financial assets as of December 31.

	2020				
	Neither past due nor impaired				
	Investment Grade	Non-investment Grade	Past due but not impaired	Impaired	Total
Insurance receivables:					
Due premiums	**₱217,240,495**	**₱–**	**₱–**	**₱–**	**₱217,240,495**
Reinsurance assets	–	**5,311,021**	–	–	**5,311,021**
	217,240,495	**5,311,021**	–	–	**222,551,516**
Financial assets at FVPL:					
Equity securities – quoted	**3,393,768,696**	–	–	–	**3,393,768,696**
Under separate fund:					
Traditional VULs:					
Cash and cash equivalents	**2,468,026,878**	–	–	–	**2,468,026,878**
Equity securities – quoted	**20,736,532,042**	–	–	–	**20,736,532,042**
Debt securities – quoted					
Government:					
Local currency	**2,668,455,377**	–	–	–	**2,668,455,377**
Foreign currency	**2,650,582,154**	–	–	–	**2,650,582,154**
Corporate:					
Local currency	**480,323,984**	–	–	–	**480,323,984**
Foreign currency	**214,621,990**	–	–	–	**214,621,990**

(Forward)

	2020				
	Neither past due nor impaired				
	Investment Grade	Non-investment Grade	Past due but not impaired	Impaired	Total
Investment in UITF					
Local currency	**₱2,192,060,254**	**₱–**	**₱–**	**₱–**	**₱2,192,060,254**
Foreign currency	**296,213,353**	–	–	–	**296,213,353**
Other receivables	**153,746,033**	–	–	–	**153,746,033**
Structured VULs:					
Local currency	**455,041,000**	–	–	–	**455,041,000**
Foreign currency	**707,525,981**	–	–	–	**707,525,981**
	36,416,897,742	–	–	–	**36,416,897,742**
AFS financial assets:					
Equity securities:					
Quoted	**10,716,229,670**	–	–	–	**10,716,229,670**
Unquoted	**376,675,022**	–	–	–	**376,675,022**
Debt securities - fixed rates:					
Quoted:					
Government:					
Local currency	**33,571,331,606**	–	–	–	**33,571,331,606**
Foreign currency	**1,202,189,063**	–	–	–	**1,202,189,063**
Corporate:					
Local currency	**16,938,450,481**	–	–	–	**16,938,450,481**
Foreign currency	**588,082,935**	–	–	–	**588,082,935**
	63,392,958,777	–	–	–	**63,392,958,777**
HTM financial assets					
Government:					
Local currency	**389,868,005**	–	–	–	**₱389,868,005**
Foreign currency	–	–	–	–	–
Corporate:					
Local currency	**40,000,000**	–	–	–	**40,000,000**
Foreign currency	–	–	–	–	–
	429,868,005	–	–	–	**429,868,005**
Loans and receivables:					
Cash and cash equivalents*	**5,083,425,862**	–	–	–	**5,083,425,862**
Short-term investments	**283,733,405**				**283,733,405**
Term loans	**4,474,750,000**	–	–	–	**4,474,750,000**
Policy loans	**5,064,446,030**	–	–	–	**5,064,446,030**
Accounts receivable		**1,486,067,624**	**17,385,970**	**22,975,880**	**1,526,429,474**
Unquoted bonds	**862,080,000**	–	–	–	**862,080,000**
Interest receivable	**695,373,684**	–	–	–	**695,373,684**
Housing loans	**113,862,868**	–	–	–	**113,862,868**
Car financing loans	**22,454,415**	–	–	–	**22,454,415**
Mortgage loans	**685,225**	**32,851,585**	**774,726**	**235,278**	**34,546,814**
Due from agents	–	**16,441,178**	–	**2,189,150**	**18,630,328**
Others	**243,450,342**	**73,915,427**	-	**15,930,349**	**333,296,118**
	16,844,261,831	**1,609,275,814**	**18,160,696**	**41,330,657**	**18,513,028,998**
	₱117,301,226,850	**₱1,614,586,835**	**₱18,160,696**	**₱41,330,657**	**₱118,975,305,038**

**Excluding cash on hand as of December 31, 2020.*

	2019				
	Neither past due nor impaired				
	Investment Grade	Non-investment Grade	Past due but not impaired	Impaired	Total
Insurance receivables:					
Due premiums	₱190,443,598	₱–	₱–	₱–	₱190,443,598
Reinsurance assets	–	4,763,183	–	–	4,763,183
	190,443,598	4,763,183	–	–	195,206,781
Financial assets at FVPL:					
Quoted equity securities	20,733,063,330	–	–	–	20,733,063,330
Equity securities – quoted	3,659,508,970	–	–	–	3,659,508,970
Under separate fund: Traditional VULs:					
Cash and cash equivalents	2,807,880,285	–	–	–	2,807,880,285
Quoted debt securities					
Government:					
Local currency	2,106,180,801	–	–	–	2,106,180,801
Foreign currency	2,630,487,080	–	–	–	2,630,487,080

(Forward)

	2019				
	Neither past due nor impaired				
	Investment Grade	Non-investment Grade	Past due but not impaired	Impaired	Total
Corporate:					
Local currency	₱193,232,143	₱–	₱–	₱–	₱193,232,143
Foreign currency	93,019,027	–	–	–	93,019,027
Investment in UITF	1,652,317,273	–	–	–	1,652,317,273
Other receivables	161,149,666	–	–	–	161,149,666
Structured VULs:					
Local currency	444,592,500	–	–	–	444,592,500
Foreign currency	1,005,243,490	–	–	–	1,005,243,490
	35,486,674,565	–	–	–	35,486,674,565
AFS financial assets:					
Equity securities:					
Quoted	14,198,628,935	–	–	–	14,198,628,935
Unquoted	377,323,542	–	–	–	377,323,542
Debt securities - fixed rates:					
Quoted:					
Government:					
Local currency	30,044,520,511	–	–	–	30,044,520,511
Foreign currency	1,186,945,810	–	–	–	1,186,945,810
Corporate:					
Local currency	16,056,960,678	–	–	–	16,056,960,678
Foreign currency	354,833,876	–	–	–	354,833,876
	62,219,213,352	–	–	–	62,219,213,352
HTM financial assets					
Government:					
Local currency	160,069,276	–	–	–	160,069,276
Foreign currency	–	–	–	–	–
Corporate:					
Local currency	40,000,000	–	–	–	40,000,000
Foreign currency	–	–	–	–	–
	200,069,276	–	–	–	200,069,276
Loans and receivables:					
Cash and cash equivalents*	4,639,924,907	–	–	–	4,639,924,907
Term loans	5,986,976,471	–	–	–	5,986,976,471
Policy loans	5,180,965,103	–	–	–	5,180,965,103
Accounts receivable		1,422,142,605	6,795,330	5,148,724	1,434,086,659
Unquoted bonds	931,040,000	–	–	–	931,040,000
Interest receivable	616,325,474	–	–	–	616,325,474
Housing loans	121,633,700	–	–	–	121,633,700
Car financing loans	25,798,946	–	–	–	25,798,946
Mortgage loans	1,311,667	34,354,833	549,125	104,264	36,319,889
Due from agents	–	6,506,740	–	1,398,087	7,904,827
Others	53,264,249	82,318,889	26,566,877	–	162,150,015
	17,557,240,517	1,545,323,067	33,911,332	6,651,075	19,143,125,991
	₱115,653,641,308	₱1,550,086,250	₱33,911,332	₱6,651,075	₱117,244,289,965

**Excluding cash on hand as of December 31, 2019.*

The following tables provide the breakdown of past due but not impaired financial assets as of December 31:

	2020			
	Past due but not impaired			
	Less than 30 days	**31 to 60 days**	**More than 60 days**	**Total**
Loans and receivables:				
Accounts receivable	**₱4,823,985**	**₱2,355,619**	**₱10,206,367**	**₱17,385,971**
Mortgage loans	**35,065**	**33,738**	**705,922**	**774,725**
	₱4,859,050	**₱2,389,357**	**₱10,912,289**	**₱18,160,696**

	2019			
	Past due but not impaired			
	Less than 30 days	31 to 60 days	More than 60 days	Total
Loans and receivables:				
Accounts receivable	₱4,313,238	₱1,036,045	₱1,446,047	₱6,795,330
Mortgage loans	24,259	20,032	504,834	549,125
Others	–	–	26,566,877	26,566,877
	₱4,337,497	₱1,056,077	₱28,517,758	₱33,911,332

For assets to be classified as "past due and impaired," contractual payments in arrears are more than 90 days. Allowance is recognized in the statements of income for these assets. When credit exposure is adequately secured, arrears of more than 90 days might still be classified as "past due but not impaired," with no impairment adjustment recorded. The Group operates mainly on a "neither past due nor impaired basis" and when evidence of impairment is available, an impairment assessment is performed if applicable.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly obtained for securities lending. Credit risk is also mitigated by entering into collateral agreements. Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable.

Collaterals obtained by the Group are investment properties upon default on mortgage loans and housing loans. The fair value of the collaterals obtained where the Company has the right by contract or custom to sell the assets amounted to ₱189,495,212 and ₱237,333,175 for housing loans and mortgage loans as of December 31, 2020 and 2019, respectively.

Credit risk disclosures under the Amendments to PFRS 4

The following table shows the carrying amounts of the SPPI assets in accordance with PAS 39 categories by credit risk rating grades reported to key management personnel. The carrying amounts are measured in accordance with PAS 39. For assets measured at amortized cost, the carrying amount shown is before any allowance for impairment loss.

	2020				
		Credit Rating			
	Total	**AAA**	**BBB**	**PRSAaa**	**Unrated**
Available-for-sale debt securities	**₱52,300,054,085**	**₱–**	**₱35,517,658,758**	**₱16,782,395,327**	**₱–**
Loans and receivables					
Cash and cash equivalents	**5,083,425,862**	–	**5,083,425,862**	–	–
Short-term investments	**283,733,405**	–	**283,733,405**	–	–
Term loans	**4,474,750,000**	–	–	–	**4,474,750,000**
Unquoted debt securities	**862,080,000**	**862,080,000**	–	–	–
Housing loans	**113,862,868**	–	–	–	**113,862,868**
Car financing loans	**22,454,415**	–	–	–	**22,454,415**
Others*	**7,672,722,448**	–	–	–	**7,672,722,448**
	₱70,813,083,083	**₱862,080,000**	**₱40,884,818,025**	**₱16,782,395,327**	**₱12,283,789,731**

**includes policy loans, accounts receivables, interest receivable, mortgage loans, due from agents and others*

	2019				
		Credit Rating			
	Total	**AAA**	**BBB**	**PRSAaa**	**Unrated**
Available-for-sale debt securities	₱47,643,260,875	₱–	₱31,231,466,320	₱16,411,794,555	₱–
Loans and receivables					
Cash and cash equivalents	4,592,328,007	–	4,592,328,007	–	–
Short-term investments	47,596,900	–	47,596,900	–	–
Term loans	5,986,976,471	–	–	976,000,000	5,010,976,471
Unquoted debt securities	931,040,000	931,040,000	–	–	–
Housing loans	121,633,700	–	–	–	121,633,700
Car financing loans	25,798,946	–	–	–	25,798,946
Others*	7,437,751,967	–	–	–	7,437,751,967
	₱66,786,386,866	₱931,040,000	₱35,871,391,227	₱17,387,794,555	₱12,596,161,084

**includes policy loans, accounts receivables, interest receivable, mortgage loans, due from agents and others*

The following table provides information on the fair value and carrying amount under PAS 39 for those SPPI assets that do not have low credit risk as determined by the Group. The carrying amounts are measured in accordance with PAS 39. For assets measured at amortized cost, the carrying amount shown is before any allowance for impairment loss.

	2020		2019	
	Fair value	**Carrying amount**	Fair value	Carrying amount
Financial assets at FVTPL				
Other receivables	**₱153,746,033**	**₱153,746,033**	₱161,149,666	₱161,149,666
Loans and receivables				
Term loans	**5,023,531,136**	**4,474,750,000**	6,347,352,311	5,986,976,471
Housing loans	**151,241,591**	**113,862,868**	115,672,819	121,633,700
Car financing loans	**21,822,038**	**22,454,415**	30,016,586	25,798,946
Others*	**7,675,844,318**	**7,675,844,318**	7,437,751,967	7,437,751,967
	₱13,026,185,116	**₱12,440,657,634**	₱14,091,943,349	₱13,733,310,750

**includes policy loans, accounts receivables, interest receivable, mortgage loans, due from agents and others*

For the fair value disclosures required by the Amendments to PFRS 4, refer to Note 30.

31.2.2. *Liquidity Risk*

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values, or failing on repayment of a contractual obligation, or insurance liability falling due for payment earlier than expected or inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Group is the matching of available cash resources in respect of claims arising from insurance contracts.

The Group manages liquidity through a group liquidity risk policy which determines what constitutes liquidity risk for the Group, specifies minimum proportion of funds to meet emergency calls, sets up contingency funding plans, specifies the sources of funding and the events that would trigger the plan, determines concentration of funding sources, reports of liquidity risk exposures and breaches to the monitoring authority, monitors compliance with liquidity risk policy, and reviews liquidity risk policy for pertinence and changing environment.

The amounts disclosed in the maturity analysis of financial assets used to manage liquidity, insurance liabilities, and financial liabilities of the Company are the contractual undiscounted cash flows based on the remaining period at the reporting date to their contractual maturities or in the case of financial assets at FVPL and legal policy reserves, the expected repayment dates detailed as follows:

	2020				
	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Financial assets:					
Cash and cash equivalents	₱5,091,113,917	₱–	₱–	₱–	₱5,091,113,917
Short-term investments	283,733,405	–	–	–	283,733,405
Insurance receivables	222,551,516	–	–	–	222,551,516
Financial assets at FVPL	31,086,337,502	2,143,675,717	1,075,111,068	3,004,332,332	37,309,456,619
AFS financial assets	17,141,723,978	12,937,129,969	9,495,471,143	42,898,711,306	82,473,036,396
HTM financial assets	272,050,000	162,329,001	–	–	434,379,001
Loans and receivables	1,714,705,795	2,835,883,109	973,523,443	9,258,065,509	14,782,177,856
Total financial assets	55,812,216,113	18,079,017,796	11,544,105,654	55,161,109,147	140,596,448,710
Financial liabilities:					
Insurance liabilities:					
Legal policy reserves	6,987,372,842	1,510,443,466	3,382,040,757	57,476,747,732	69,356,604,797
Other insurance liabilities:					
Members' deposits and other funds on deposit*	32,083,913,349	240,968,375	49,455,550	4,522,424,214	36,896,761,488
Claims pending settlement	3,462,249,369	–	–	–	3,462,249,369
	42,533,535,560	1,751,411,841	3,431,496,307	61,999,171,946	109,715,615,654
Other financial liabilities:					
Accrued expenses and other liabilities:					
Accounts payable	332,791,997	–	467,996,215	–	800,788,212
Accrued employee benefits	68,530,330	–	–	391,537,828	460,068,158
Commissions payable	157,551,193	–	–	–	157,551,193
General expenses due and accrued	3,048,198	–	–	–	3,048,198
Others	23,333,544	–	–	–	23,333,544
	585,255,262	–	467,996,215	391,537,828	1,444,789,305
Total financial liabilities	43,118,790,822	1,751,411,841	3,899,492,522	62,390,709,774	111,160,404,959
Liquidity position	₱12,693,425,291	₱16,327,605,955	₱7,644,613,132	(₱7,229,600,627)	₱29,436,043,751

**Excluding unearned membership fees of I-Care amounting to ₱285,914,056*

	2019				
	Up to a year	1-3 years	3-5 years	Over 5 years	Total
Financial assets:					
Cash and cash equivalents	₱4,639,924,907	₱–	₱–	₱–	₱4,639,924,907
Insurance receivables	195,206,781	–	–	–	195,206,781
Financial assets at FVPL	29,507,820,214	2,535,366,144	1,203,066,473	3,499,506,935	36,745,759,766
AFS financial assets	19,835,820,322	7,455,836,796	12,205,489,421	44,602,816,050	84,099,962,589
HTM financial assets	97,000,000	121,377,254	–	–	218,377,254
Loans and receivables	3,377,242,698	2,783,530,899	1,571,454,108	8,196,641,941	15,928,869,646
Total financial assets	57,653,014,922	12,896,111,093	14,980,010,002	56,298,964,926	141,828,100,943
Financial liabilities:					
Insurance liabilities:					
Legal policy reserves	5,853,982,404	3,892,842,659	1,536,674,763	46,878,145,281	58,161,645,107
Other insurance liabilities:					
Members' deposits and other funds on deposit*	30,227,793,472	1,017,348,874	275,788,180	4,534,796,980	36,055,727,506
Claims pending settlement	2,284,854,422	–	–	–	2,284,854,422
	38,366,630,298	4,910,191,533	1,812,462,943	51,412,942,261	96,502,227,035
Other financial liabilities:					
Accrued expenses and other liabilities:					
Accounts payable	₱537,359,318	₱–	₱338,937,284	₱–	₱876,296,602
Accrued employee benefits	76,077,745	56,372,511	315,300,523	–	447,750,779
Commissions payable	129,436,162	–	–	–	129,436,162
General expenses due and accrued	23,040,280	–	–	–	23,040,280
Others	3,530,854	–	–	–	3,530,854
	769,444,359	56,372,511	654,237,807	–	1,480,054,677
Total financial liabilities	39,136,074,657	4,966,564,044	2,466,700,750	51,412,942,261	97,982,281,712
Liquidity position	₱18,516,940,265	₱7,929,547,049	₱12,513,309,252	₱4,886,022,665	₱43,845,819,231

**Excluding unearned membership fees of I-Care amounting to ₱234,712,204*

It is unusual for a company primarily transacting an insurance business to predict the requirements of funding with absolute certainty as the theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are, thus, based on management's best estimate based on statistical techniques and past experience.

31.2.3. *Market Risk*
Market risk is the risk of change in fair value of financial instruments from fluctuations in market interest rates (fair value interest rate risk), market prices (equity price risk), and foreign exchange rates (currency risk) whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The following policies and procedures are in place to mitigate the Group's exposure to market risk:

- The Group structures levels of market risk it accepts through a group market risk policy that determines what constitutes market risk for the Group; basis used to fair value financial assets and financial liabilities; asset allocation and portfolio limit structure; diversification benchmarks by type and duration of instrument; reporting of market risk exposures and breaches to the monitoring authority; monitoring compliance with market risk policy and review of market risk policy for pertinence and changing environment;

- Set out the assessment and determination of what constitutes market risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Group risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment; and

- Establish asset allocation and portfolio limit structure, to ensure that assets back specific policyholders' liabilities and that assets are held to deliver income and gains for policyholders which are in line with expectations of the policyholders.

a. Fair Value Interest Rate Risk
Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group's fixed rate investments in particular are exposed to such risk.

The following tables show the information relating to the Group's exposure to fair value interest rate risk:

	2020 Maturity							
Fixed Rate Instruments	**Effective Interest Rate**	**In 1 year or less**	**More than 1 year but not 2 years**	**More than 2 years but not 3 years**	**More than 3 years but not 4 years**	**More than 4 years but not 5 years**	**More than 5 years**	**Total**
Financial assets at FVPL - debt securities								
Government:								
Local currency	0.0% - 8.0%	₱888,945,385	₱362,510,413	₱599,365,440	₱43,909,037	₱256,741,796	₱516,983,306	₱2,668,455,377
Foreign currency	2.5% - 10.6%	62,583,478	–	–	331,081,699	272,905,104	1,984,011,873	2,650,582,154
Corporate:								
Local currency	3.0% - 6.1%	–	160,345,337	90,861,603	–	–	229,117,044	480,323,984
Foreign currency	2.1% - 4.4%	–	–	90,736,097	–	–	123,885,893	214,621,990
Structured VULs:								
Local currency	1.50%	455,041,000	–	-	–	–	–	455,041,000
Foreign currency	1.5% - 2.5%	353,980,654	–	353,545,327	–	–	–	707,525,981
AFS debt securities:								

(Forward)

Fixed Rate Instruments	**Effective Interest Rate**	**In 1 year or less**	**More than 1 year but not 2 years**	**More than 2 years but not 3 years**	**More than 3 years but not 4 years**	**More than 4 years but not 5 years**	**More than 5 years**	**Total**
				2020				
				Maturity				
Quoted:								
Government:								
Local currency	**0.0% - 13.8%**	**₱1,520,701,870**	**₱262,567,137**	**₱1,025,679,520**	**₱742,543,725**	**₱1,073,617,470**	**₱28,946,221,884**	**₱33,571,331,606**
Foreign currency	**2.7% - 9.5%**	–	–	–	–	–	**1,202,189,063**	**1,202,189,063**
Corporate:								
Local currency	**3.0% - 8.5%**	**1,875,336,336**	**1,625,835,850**	**5,089,582,119**	**1,060,660,271**	**2,572,562,524**	**4,714,473,381**	**16,938,450,481**
Foreign currency	**2.1% - 5.1%**	–	–	–	–	**146,987,838**	**441,095,097**	**588,082,935**
		₱5,156,588,723	**₱2,411,258,737**	**₱7,249,770,106**	**₱2,178,194,732**	**₱4,322,814,732**	**₱38,157,977,541**	**₱59,476,604,571**

Fixed Rate Instruments	Effective Interest Rate	In 1 year or less	More than 1 year but not 2 years	More than 2 years but not 3 years	More than 3 years but not 4 years	More than 4 years but not 5 years	More than 5 years	Total
				2019				
				Maturity				
Financial assets at FVPL - debt securities								
Government:								
Local currency	3.3% - 8%	₱230,288,381	₱192,576,413	₱100,422,975	₱631,919,235	₱53,723,713	₱841,616,284	₱2,050,547,001
Foreign currency	3.0% - 10.6%	66,061,155	67,292,750	-	–	339,495,619	2,157,637,556	2,630,487,080
Corporate:								
Local currency	4.5% - 6.1%	–	–	–	89,770,919	–	103,461,224	193,232,143
Foreign currency	4.3% - 4.4%	50,906,910	–	–	42,112,117	–	–	93,019,027
Structured VULs:								
Local currency	1.5%	-	444,592,500	-	–	–	–	444,592,500
Foreign currency	1.5% - 2.5%	149,155,520	374,954,200	-	481,133,770	–	–	1,005,243,490
AFS debt securities:								
Quoted:								
Government:								
Local currency	3.3% - 13.8%	1,001,445,289	–	266,426,568	982,116,045	1,224,735,940	26,569,796,669	30,044,520,511
Foreign currency	3.7% - 9.5%	–	–	–	-	–	1,186,945,810	1,186,945,810
Corporate:								
Local currency	3.9% - 8.5%	3,135,457,266	1,219,721,158	1,025,018,169	4,398,712,198	1,069,359,796	5,208,692,091	16,056,960,678
Foreign currency	4.8% - 5.1%	–	–	–	–	–	354,833,877	354,833,876
		₱4,633,314,521	₱2,299,137,021	₱1,391,867,712	₱6,625,764,284	₱2,687,315,068	₱36,422,983,510	₱54,060,382,116

The following tables provide the sensitivity analysis of the fair value of financial assets and its impact to profit before tax and equity due to changes in interest rates as of December 31:

		Changes in variable	**Effect on income before tax**	**Effect on equity**
2020	**USD**	**+ 25 basis points**	**(₱3,031,967)**	**(₱55,245,650)**
	PHP	**+ 25 basis points**	**(224,978)**	**(706,112,962)**
	USD	**- 25 basis points**	**3,106,395**	**56,951,736**
	PHP	**- 25 basis points**	**228,368**	**722,726,099**

		Changes in variable	Effect on income before tax	Effect on equity
2019	USD	+ 25 basis points	(₱2,719,500)	(₱52,817,846)
	PHP	+ 25 basis points	(340,632)	(647,380,367)
	USD	- 25 basis points	2,802,270	54,532,220
	PHP	- 25 basis points	347,231	662,774,274

The impact on the Company’s equity already excludes the impact on transactions affecting profit or loss.

The use of +/-25 basis points is a reasonably possible change in the market value of the debt securities.

b. *Equity Price Risk*

The Group's price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, AFS financial assets, and financial assets at FVPL.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of financial recognized in the statements of income) and on statements of changes in members' equity (due to changes in fair value of financial assets recognized in OCI).

	Change in PSE index	Effect on income before tax	Effect on Equity
2020	**Increase by 5%**	**₱1,012,165,352**	**₱1,437,291,959**
	Decrease by 5%	**(1,012,165,352)**	**(1,437,291,959)**
2019	Increase by 5%	943,849,957	1,606,413,016
	Decrease by 5%	(943,849,957)	(1,606,413,016)

The impact on the Group's equity already excludes the impact on transactions affecting profit or loss.

Risk Concentrations of the Maximum Exposure to Equity Price Risk

The Group's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; and limits on investment in each industry or sector.

The table below analyses the Group's concentration of equity price risk in the Group's equity portfolio by industrial distribution as percentage of total equity securities.

	2020	2019
Financial institutions	**39%**	32%
Electricity, energy, power, and water	**16%**	22%
Holding firms	**16%**	15%
Property	**10%**	10%
Food, beverage, and tobacco	**5%**	6%
Telecommunications	**4%**	4%
Others	**10%**	11%
Total	**100%**	100%

c. *Currency Risk*

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's foreign currency-denominated assets and liability as of December 31 consist of the following:

	2020		2019	
	United States Dollar Value	**Peso Equivalent**	United States Dollar Value	Peso Equivalent
Assets				
Cash and cash equivalents	**$9,453,157**	**₱453,968,966**	$15,367,640	₱778,140,437
Short-term investments	**6,661,905**	**319,924,665**	940,000	47,596,900
Financial assets at FVPL	**88,818,814**	**4,265,345,884**	86,968,591	4,403,654,598
AFS financial assets	**37,279,470**	**1,790,271,998**	30,448,893	1,541,779,687
	$142,213,346	**₱6,829,511,513**	$133,725,124	₱6,771,171,622
Liabilities				
Legal policy reserves	**$472,506**	**₱22,691,155**	$393,492	₱19,924,497
	$472,506	**₱22,691,155**	$393,492	₱19,924,497

The foregoing United States Dollar amounts have been restated to their Peso equivalents using the exchange rate of ₱48.023 and ₱50.635 to US$1.00, as recommended by IC, as of December 31, 2020 and 2019, respectively. Net foreign exchange loss amounted to ₱177,386,780 in 2020 and ₱177,571,837 in 2019.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on income before tax (due to changes in fair value of currency sensitive monetary assets and liabilities).

	Change in USD - PHP exchange rate	**Effect on income before tax**
2020	**Increase by 0.51%**	**₱34,946,234**
	Decrease by 0.51%	**(34,946,234)**
2019	Increase by 2.58%	₱175,210,279
	Decrease by 2.58%	(175,210,279)

There is no other impact on the Group's equity other than those already affecting profit or loss.

32. Capital Management and Regulatory Requirements

32.1. Capital Management Framework

The Group manages its capital through its compliance with the statutory requirements on minimum members' equity. The Parent Company is also complying with the statutory regulations on Amended Risk-Based Capital (RBC2) Framework to measure the adequacy of its statutory surplus in relation to the risks inherent in its business. The RBC2 method involves developing a risk-adjusted target level of statutory surplus by applying certain factors to various asset, premium, and reserve items. Higher factors are applied to more risky items and lower factors are applied to less risky items. The target level of statutory surplus varies not only as a result of the insurer's size, but also on the risk profile of the insurer's operations.

The Group considers its total retained earnings amounting to ₱36,020,138,178 and ₱33,480,514,414 as of December 31, 2020 and 2019, respectively, as its capital.

The Group manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Group's activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to policyholders.

To ensure compliance with these externally imposed capital requirements, it is the Group's policy to monitor fixed capital requirements, and RBC2 requirements on a quarterly basis as part of Group's internal financial reporting process.

The Group and the Parent Company fully complied with the externally imposed capital requirements during the reported financial periods and no changes were made to its objectives, policies, and processes from the previous year.

As of December 31, the estimated amount of nonadmitted assets of the Parent Company, as defined under the Code, which are included in the accompanying statements of financial position, follows:

	2020	2019
Property and equipment	**₱158,722,990**	₱176,928,332
Accounts receivable and other assets	**2,529,349,854**	2,693,627,877
	₱2,688,072,844	₱2,870,556,209

The Group is not subject (i.e., under guarantyship, suretyship, or other similar arrangements other than reinsurance in the normal course of operation) to any contingent liability, or capital or purchase commitments as of December 31, 2020 and 2019.

32.1.1. *Minimum Members' Equity Requirements*

Insurance Commission (IC) Circular Letter (CL) No. 2017-14, as amended by CL No. 2019-67, provides for the minimum total members' equity requirements for all mutual life insurance companies on a staggered basis for the years ended December 31, 2016 up to 2022. The term "Members' Equity/Owners' Equity" is equal to the total company assets minus total company liabilities which shall remain unimpaired at all times. The table below shows the amount of minimum total members' equity and schedule of compliance per IC CL No. 2017-14, as amended by CL No. 2019-67.

Minimum Total Members' Equity	**Compliance Date**
₱900,000,000	31 December 2019
1,300,000,000	31 December 2022

As of December 31, 2020 and 2019, the Parent Company's members' equity is ₱34,011,301,966 and ₱39,330,577,664, respectively.

32.1.2. *Amended Risk-Based Capital Requirements*

In December 2016, the IC issued Circular Letter No. 2016-68 on Amended Risk-Based Capital (RBC2) Framework adopting a three (3) pillar risk-based approach to solvency. Under Pillar 1, all insurance companies are required to maintain the minimum RBC ratio of 100%. Failure to meet the required minimum RBC Ratio based on quarterly and annual submissions shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as Total Available Capital divided by the RBC requirement. Total Available Capital shall include the Parent Company's paid-up capital, contributed and contingency surplus, and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of Total Available Capital only to the extent authorized by the IC.

As of December 31, 2020, the Parent Company's Capital Adequacy Ratio under RBC2 Framework is equivalent to 128% with Total Available Capital and RBC requirement amounting to ₱30,950,441,656 and ₱24,252,678,653, respectively. This is compliant with the minimum statutory requirement of 100%.

The final amount of the RBC ratio can be determined only after the accounts of the Parent Company has been examined by the IC specifically as to admitted and nonadmitted assets as defined under the Amended Insurance Code.

33. Maturity Analysis of Assets and Liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be realized or settled:

	2020		
	Less than 12 months	**Over 12 months**	**Total**
ASSETS			
Cash and Cash Equivalents	**₱5,091,113,917**	**₱–**	**₱5,091,113,917**
Short-term investments	**283,733,405**		**283,733,405**
Insurance Receivables	**222,551,516**	**–**	**222,551,516**
Financial Assets:			
Fair value through profit or loss	**30,890,342,936**	**5,415,999,969**	**36,306,342,905**
Available-for-sale	**29,111,691,060**	**34,281,267,716**	**63,392,958,776**
Held-to-maturity	**260,824,728**	**169,043,277**	**429,868,005**
Loans and receivables	**1,198,839,714**	**11,905,699,361**	**13,104,539,075**
Investments in Associates	**–**	**17,323,362,028**	**17,323,362,028**
Investment Properties	**–**	**6,414,418,192**	**6,414,418,192**
Property and Equipment	**6,325,835**	**1,993,067,016**	**1,999,392,851**
Retirement Benefits Asset	**1,022,180**	**-**	**1,022,180**
Deferred Income Tax Assets - net	**–**	**3,084,638 ,707**	**3,084,638,707**
Other Assets	**29,324,196**	**1,013,452,189**	**1,042,776,385**
Total Assets	**₱67,095,769,487**	**₱81,600,948,455**	**₱148,696,717,942**
LIABILITIES			
Legal Policy Reserves	**₱6,987,372,841**	**₱62,369,231,956**	**₱69,356,604,797**
Other Insurance Liabilities	**35,512,128,928**	**4,812,848,138**	**40,324,977,066**
Accrued Expenses and Other Liabilities	**993,090,875**	**835,017,305**	**1,828,108,180**
Retirement benefits liability	**–**	**81,944,087**	**81,944,087**
Deferred Income Tax Liabilities - net	**–**	**261,819**	**261,819**
Total Liabilities	**₱43,492,592,644**	**₱68,099,303,305**	**₱111,591,895,949**

	2019		
	Less than 12 months	Over 12 months	Total
ASSETS			
Cash and Cash Equivalents	₱4,644,101,483	₱–	₱4,644,101,483
Insurance Receivables	195,206,781	–	195,206,781
Financial Assets:			
Fair value through profit or loss	29,480,959,494	5,920,709,275	35,401,668,769
Available-for-sale	30,178,347,584	32,040,865,768	62,219,213,352
Held-to-maturity	79,907,222	120,162,054	200,069,276
Loans and receivables	4,315,223,373	10,173,867,992	14,489,091,365
Investments in Subsidiaries and Associates	–	16,197,507,735	16,197,507,735
Investment Properties	–	6,767,571,107	6,767,571,107
Property and Equipment	102,501	1,889,316,578	1,889,419,079
Retirement Benefits Asset	1,029,451	87,439,925	88,469,376
Deferred Income Tax Assets - net	–	31,318,073	31,318,073
Other Assets	22,704,432	1,061,166,536	1,083,870,968
Total Assets	₱68,917,582,321	₱74,289,925,043	₱143,207,507,364
LIABILITIES			
Legal Policy Reserves	₱5,853,982,404	₱52,307,662,703	₱58,161,645,107
Other Insurance Liabilities	32,439,995,479	5,900,586,449	38,340,581,928
Accrued Expenses and Other Liabilities	825,637,344	884,679,872	1,710,317,216
Retirement benefits liability	–	6,154,514	6,154,514
Deferred Income Tax Liabilities - net	–	1,066,363,570	1,066,363,570
Total Liabilities	₱39,119,615,227	₱60,165,447,108	₱99,285,062,335

34. Events after the Reporting Date

Re-imposition of enhanced community quarantine
In a move to contain the COVID-19 outbreak, the Office of the President of the Philippines issued a Proclamation No. 929 on March 16, 2020 declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020, which was subsequently extended to May 15, 2020, for NCR and other areas. Subsequent to May 15, 2020, the NCR and certain areas were subjected to modified enhanced community quarantine. Beginning June 1, 2020, NCR and certain areas were put under general community quarantine until March 26, 2021.

On March 27, 2021, the enhanced community quarantine was re-imposed in NCR Plus, which includes Metro Manila, Bulacan, Cavite, Laguna and Rizal, for one (1) week from March 29, 2021 until April 2, 2021, which was then extended to April 11, 2021. Subsequent to April 11, 2021 NCR Plus was placed on modified enhanced community quarantine from April 12, 2021 until April 30, 2021.

These measures have caused disruptions to businesses and economic activities, and its impact on businesses continues to evolve.

Insofar as the Group is concerned, it operated via alternative work arrangements for its employees, balancing their safety and welfare on the one hand, and on the other, ensuring it continued to provide selected services.

Passage of CREATE bill into law
President Rodrigo Duterte signed into law on March 26, 2021 the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Group:

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding Php5 million and with total assets not exceeding Php100 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.

- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

Applying the provisions of the CREATE Act, the Group would have been subjected to lower RCIT rates of 25% or 20% and lower MCIT rate of 1%, as applicable, effective July 1, 2020.

- Based on the provisions of Revenue Regulations (RR) No. 5-2021 dated April 8, 2021 issued by the BIR, the transitory RCIT and MCIT rates the Group may use for CY2020 are 27.5% or 25%, and 1.50%, respectively. This will result in lower consolidated provision for current income tax for the year ended December 31, 2020 amounting to ₱87,590,307 or a reduction of ₱11,880,189. The reduced amounts will be reflected in the Parent Company and the subsidiaries' respective 2020 annual income tax return. However, for purposes of financial reporting, the changes will only be recognized in the Group's 2021 financial statements.

- This will result in lower consolidated net deferred tax assets, and consequently equity, by ₱517,235,253 as of December 31, 2020. The decrease in deferred tax assets will be recognized as reduction in Other comprehensive income by ₱594,447,965 and increase in income by ₱77,212,712. These reductions will be recognized by the in the 2021 financial statements.